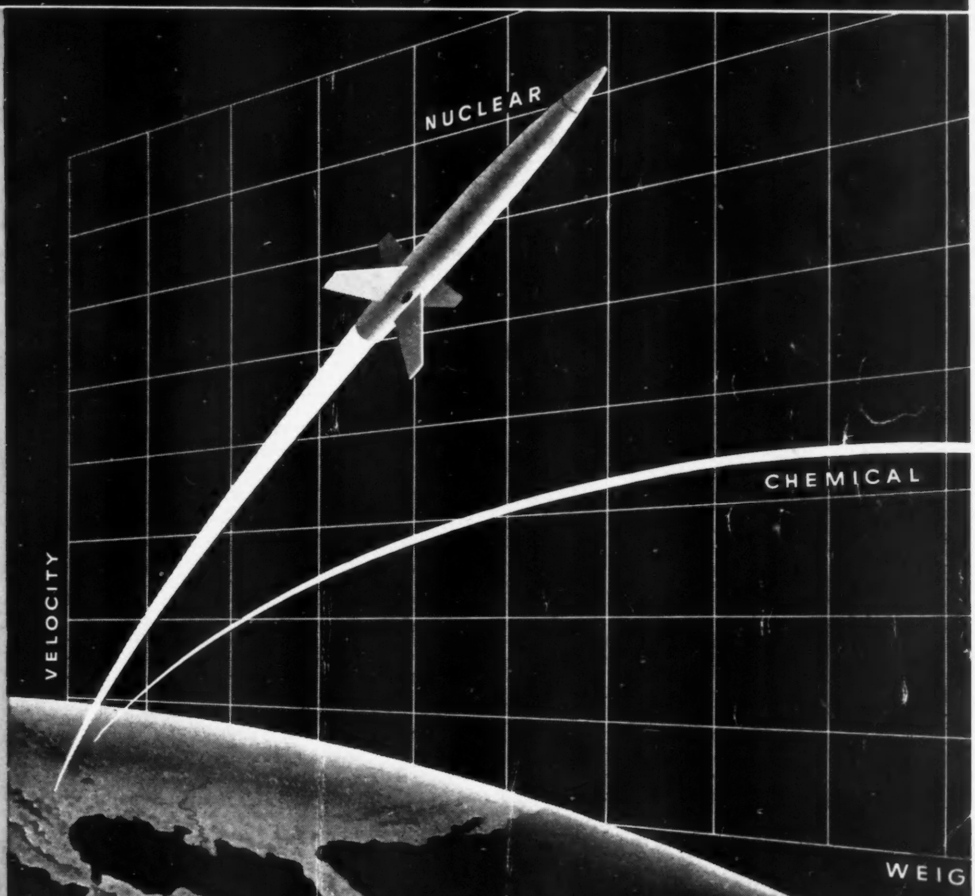
"MARKETS" WITHIN THE STOCK MARKET

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

NOVEMBER 23, 1957 85 CENTS



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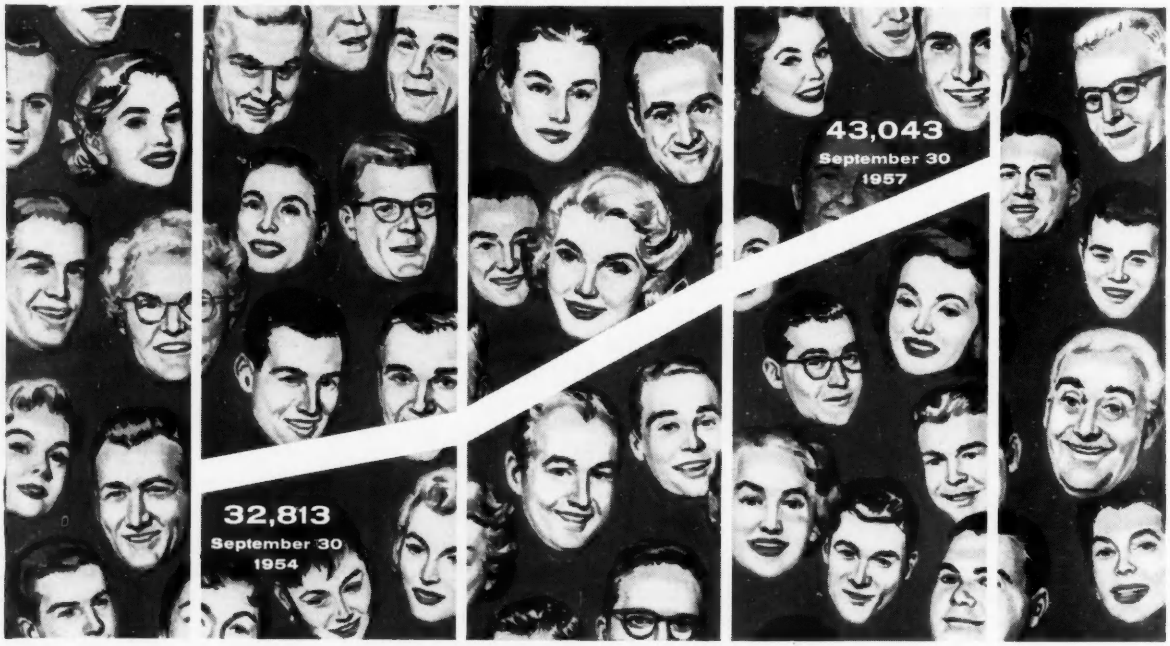
The Ohio Oil Company has attracted more than 10,000 new shareholders* in the past three years



Statement of consolidated income • Nine months ended September 30

	1957	1956
Net Sales and Other Income	$219,129,472	$205,974,569
Cost of Sales and Expenses (Exclusive of charges set forth below)	157,475,498	148,484,802
Depletion, Depreciation and Amortization	18,437,229	18,168,317
Provision for Federal Income Tax	11,209,296	9,025,482
NET INCOME FOR THE PERIOD	$ 32,007,449	$ 30,295,968
Net Income Per Share Common Stock	$ 2.44	$ 2.31
Shares of Common Stock Outstanding	13,126,753	13,126,753
Cash Dividends Paid — Per Share	$ 1.20	$ 1.20
Net Crude Oil and Natural Gas Liquids Produced — Barrels	29,344,000	29,600,000
Crude Oil Processed at Refinery — Barrels	11,289,000	11,984,000

Subject to adjustment by independent public accountants upon completion of year-end audit.

On October 30, 1957, the Board of Directors declared a dividend of 40 cents per share on common stock, payable December 10, 1957, to shareholders of record November 12, 1957.

MARATHON

THE OHIO OIL COMPANY Findlay, Ohio

Producers • Transporters • Refiners • Marketers of MARATHON Petroleum Products

*net increase

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Member of Audit Bureau of Circulations

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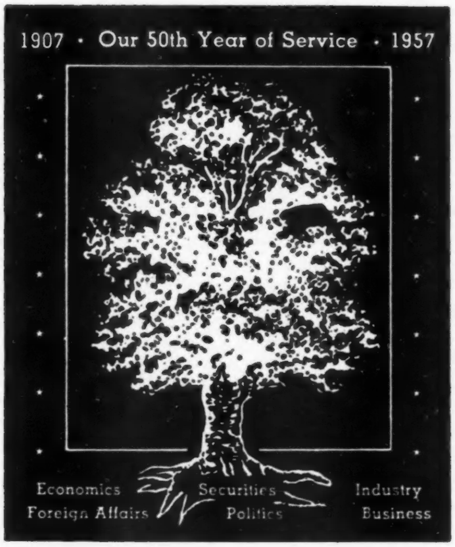
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher*



The Trend of Events

A $64,000 QUESTION . . . In his talk to the nation, the President posed three alternatives for meeting the greatly increased cost of an expanding scientific program. And the unpalatable nature of all three of these choices jarred the complacency of those who had not taken the time to reckon the cost.

The first referred to the likelihood of new taxation; the second to an increase in the debt ceiling and resort to deficit financing; the third to the elimination of many non-military government expenses in order to hold the debt ceiling inviolate.

Altogether, the picture the President gave us of our economy is one that will call for serious and considered thinking on the part of American citizens, and should be a warning to pressure groups that they will have to find their own way toward solving their particular problems.

In this issue we are carrying a thought-provoking story dealing with the problem of national solvency, prepared and written for us by an outstanding expert, and it is suggested for careful reading by our subscribers. It details the reasons why the debt ceiling must be maintained if it is at all possible to do so—especially at this time when so many seem inclined toward hysterical spending of any amount in order to surpass the Russians in the conquest of space.

Attempts which will be made to crash the debt ceiling next year and will force members of Congress to stand up and be counted, either on the side of economy or for the attitude Paul A. Porter expressed in the heyday of the New Deal: "After all, it's only money!"

Much is being made of the circumstance that we are perilously close to crashing the debt ceiling. The figure varies. The fact probably is that there have been days when the United States owed more than $275 billion. Persons of great wealth, big corporations, and even small subdivisions of government—the city or town—would be hard put to strike a precise balance as of the end of this day, and be certain that the figures had real meaning tomorrow. Probably one month from today, the Treasury could state on the oath of its auditors what today's net debt was, but income and outgo in the interim, retirement of obligations and assumption of others, could change the picture.

On the record, we have not penetrated the ceiling. The need and the temptation probably have been great. There isn't the slightest doubt that today's figure would be $280 billion or more, had Congress authorized it. There is a powerful drive in motion now to increase the allowable debt next year. If it succeeds, expenditures will mount to crowd that limit, just as othey are crowding the present ceiling.

The question to be presented to Congress within a few months is whether to raise the limit and solve the problem "the easy way," or hold to the present boundary at the cost of savings in other government operations. This is a hard decision for the lawmakers. Especially in an election year, when Federal salary and wage increases, pork barrel legislation, and the general h.c.l. are combining to boost

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

Business, Financial *and* Investment Counsellors::1907–*"Our 50th Year of Service"*–1957

the burdens of government.

Payroll continues to be a big factor, yet it is one cost element in which the Eisenhower Administration must be credited with fulfilling a campaign promise. Ike undoubtedly would be willing to share the credit with Senator Harry F. Byrd whose subcommittee on nonessential government expenditures (appointed at his behest) has worked without respite. The results show that a cutback in civilian jobs in the military establishment is nearing its goal: 50,000 jobs have been abolished out of 60,000 slated for elimination.

The U.S. Chamber of Commerce has conducted a survey which discloses a spurt in school building construction which is overtaking the demand; says, in fact, continuance of present activity would produce a surplus in five years. No one contends there has been even distribution of the new classrooms. There still are communities which are woefully behind in meeting demands. But the data seems a complete rejection of the notion that the Federal Government should go into a national school building program. A selective move, yes, but building schools in states which already are meeting their needs, no.

The White House is expected to propose an increase in the permissible public debt. If the President's estimate of $1-2 billion more for missiles and related work stands, Senator Byrd and others say the increased costs can be met within a budget approximately the size of this year's estimates. That means cutting other appropriations bills which, in turn, means thinking in national and not regional or local terms.

HOW MUCH LONGER? . . . Is loyalty to a man greater than loyalty to the country? That is a question that many of us are asking ourselves regarding the continuance of Secretary of State Dulles in office, despite the piling up of evidence that he has been outmaneuvered time and again not only by the Russians but our friends as well.

In our lifetime, no Secretary of State has been so criticized by friend and foe alike and remained in office. This is particularly surprising in the light of the critical state of world affairs.

Russia's "sputnik diplomacy" is completely swamping Mr. Dulles, so that it requires a much stronger man to solve the problem of NATO and the spirit of unity so necessary among the Western powers. For, unless this is accomplished, we will be giving Russia a victory that has been her greatest dream—that of a disunited Europe which she can threaten into neutralizing American bases now strategically placed in the various countries.

Thus far Mr. Dulles seems to have had no answers to Krushchev's bombast, further emphasizing the charge abroad that America lacks the quality of leadership to meet the Russian challenge.

At home we feel the same way. Only more so—because the failure of Mr. Dulles affects our lives—and our well-being adversely.

By inviting Mr. Stevenson to either perpetuate his mistakes, or to share the responsibility for the decisions to be made at the NATO meeting in Paris is a terrible sign of weakness—an admission that things have been going badly, and that Dulles does not know how to solve them, or no longer wants responsibility for decisions.

How can we sit still and let such a situation continue? For the approach to NATO has already been weakened by the disarmament issue in the United Nations, where Russia has scored a diplomatic triumph in forcing the membership of the Disarmament Commission to be drastically enlarged—in the face of the firm resolve of the United States to hold it to five members.

Russian strength has always been a matter of guesswork, and yet we have lost out to her superior diplomacy even at her weakest moment. Any student of history knows that the fall of Greece, Rome, the great Ottoman Empire, and, in earlier days, the fabulous Persian State (to cite some familiar examples) were conquered by weaker powers that had nothing to lose. That in every case the softness resulted from excessive wealth, inefficiencies, weakness and incompetence of the leaders, in which indecisiveness was a basic factor. At home it meant the tolerance of corruption at every level, a weakening of the moral fiber of the people that communicated itself to the rest of the world until the nation was ripe for destruction.

That is why Krushchev did not hesitate to say that the next war would be fought on American soil. His contempt for the United States is enormous. He sees us as an undisciplined people that can readily be intimidated through our weak leadership—and his supreme confidence impresses the rest of the world, who have lived history.

As events make it clear, we must set to work to put our house in order if we are to win back the respect of the world, that consider a nation to be as weak as its leadership, and will kick us around as long as we will let them.

At this crucial time in our history, Mr. Dulles, who is without effectiveness either at home or abroad, should resign and let a stronger man take his place. It is imperative – for he personifies our failures abroad.

—CHARLES BENEDICT

CURE FOR INDIGESTION ONLY? . . . The reduction in the discount rate to 3% was welcomed in various quarters. But, it must be recognized that in taking this step the Federal Reserve firmly established the fact that the discount rate is now an instrument of policy rather than a reflection of monetary conditions. Many bankers have already expressed doubts that there will be a sudden outpouring of loanable funds, since bank reserves are still low. And the Federal Reserve has as yet taken no steps to ease this reserve squeeze.

However, loosening the money rate had the prompt effect of moving a number of undigested securities recently offered that have cluttered dealers' shelves. It gave a fillip to the Federal bond market—promoted a quick rally in the stock market—and will make it easier for the government to resort to deficit financing. What else it is going to accomplish is in the realm of speculation, for bankers who have become more meticulous about taking risks are not going to change policies because of slightly lower rates. Neither will businessmen who have put off borrowing because of less satisfactory business prospects, be stampeded into new loans.

The reason given by the Federal Reserve Board is that inflation is on the wane, but the evidence at hand is still inconclusive. The government's cost-of-living index has been steadily advancing, and at the consumer's level there is little cause for conviction that the inflationary threat is done with.

As I See It!

By CHARLES BENEDICT

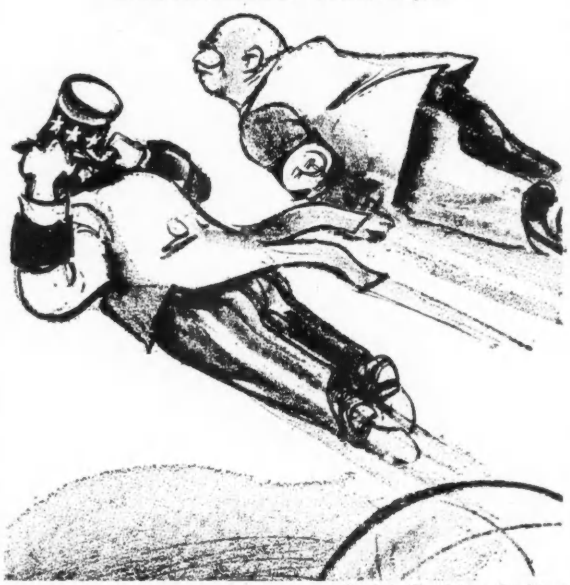
THANK YOU, MR. KRUSHCHEV

That is the least we can do, for we needed just that touch of scorn in his voice to put us on our mettle—to wake up the lazy giant that is the United States, to a realization that we were taking too much for granted.

But we have always done that—relying on our ingenuity to save us at the last moment. This has been particularly true in war time. Thus, when the Confederacy invented the Merrimac, the North was not far behind with the Monitor, which neutralized it. In World War II, German and Japanese military technology was substantially ahead of ours — and yet our scientific and industrial know-how — together with our managerial common sense genius—and the free-thinking that comes to us in a crisis — closed the gap.

However, the great changes that have taken place since World War II and the rapid obsolescence, plus the heavy costs involved, have caused us to make haste carefully in the field of armament. We have not been in a race with anyone. But, *we have concentrated* on revamping and expanding our entire industrial economy — and building trade for our products in civilian markets at home and abroad.

'DESTINATION UNKNOWN'



Burch in The Chicago Sun-Times

The sputniks and the little dog sent out of this world into outer space, was a grandstand play by the Russians, for even Mr. Krushchev knows that our American scientists need not take a back seat to anyone. But his gloating and taunts brought us up sharply to the significance behind his words and its challenge to the security not only of the United States, but of the whole world.

And while the Russian threat naturally will oblige us to think in terms of weapons—in a larger sense, it has stirred up a more urgent realization of the challenge and the immediacy of new adventure that it implies. Adventure that we will approach in the American way—in the main, by concentrating our scientific skill to improve the lot of man—to raise his standard of living so he will not continue to grovel in the dust and dirt that we find so prevalent in the ancient and undeveloped countries of the world.

We will not follow Russia's direction, but will set our own pace—for we Americans are moved by the pitiful spectacle of children drinking water out of the gutters, and the shocking sight of flies resting on the eyelids of blinded children, men and women—a degrading picture of mankind that doesn't interest Mr. Krushchev or the ruling clique of the Soviet Union one iota.

We are determined that the life we are attempting to preserve from the Russian threat will be worth living.

The suggestions of a crash program for scientific education is all right as far as it goes, but, more important, is the complete revamping of our whole educational system, which has long been wallowing in a sea of mediocrity.

In the current almost hysterical atmosphere we must be careful not to perpetuate our basic errors by concentrating our efforts on quantity, but must work for quality. We will not outdo the Russians by turning out more scientists — but by producing better ones. And this will not be accomplished by merely budgeting x number of dollars or offering y number of scholarships. Rather there must be an upgrading in the quality of our education.

One of the most interesting aspects of the European system is that after a basic education has been attained, further progress through the school system is dependent on both the talent, capacity and the interest of the student. There are no "free loaders"— with courses in skiing, golfing, bridge and other frivolities counting as credits toward a degree. Those who pass into higher institutions have been well prepared, have the desire to learn, and have already cultivated the study habits and love of learning that is necessary if education is to be a meaningful thing.

Unfortunately too many in this country are under the impression that mere exposure to the "hallowed halls", or four years spent behind "ivy walls" is sufficient to make an educated man. Nothing can be further from the truth.

But the setting up of a sound educational system is not enough. It must be supplemented by the interest and support of parents and the proper kind of discipline. We must build character and understanding, in addition to learning, if we are going to develop the kind of citizens upon which the future of the United States can depend to meet the challenge of the future.

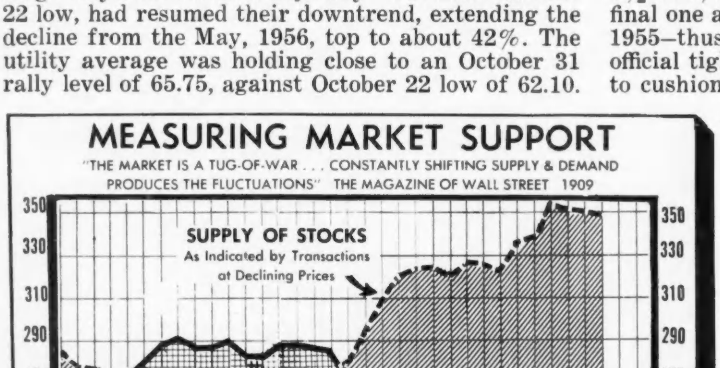
"Markets" Within The Stock Market

Dramatic reversal of official tight-money policy sparked a sharp market rally. Bond prices responded immediately and good-grade common stocks also improved vigorously. Position for most cyclical issues is not greatly changed. Business recession cannot be halted for some time. We continue to advocate a discriminating, generally conservative investment policy.

By A. T. MILLER

This was the market picture prior to the final trading session last week: The industrial average had rebounded about 21 points from its October 22 low to an October 31 rally level around 441. It then drifted downward for the better part of two weeks, giving up about 60% of the rally and appearing on the verge of a test of the October low. The forlorn and largely friendless rails, which had been able to stage only a modest one-day rally from their October 22 low, had resumed their downtrend, extending the decline from the May, 1956, top to about 42%. The utility average was holding close to an October 31 rally level of 65.75, against October 22 low of 62.10. Most other income stocks were holding well. Rallies in missile-aircraft stocks dominated much of the day-to-day market news. Many industrial stock groups were soft. A few, with relatively good earnings prospects, were firm. The bond market was improving slightly.

And then came the surprising over-night news of a reduction in Federal Reserve rediscount rates from $3\frac{1}{2}$ to 3%, following seven successive increases (the final one as late as August of this year) since April, 1955—thus dramatically signalling a reversal of the official tight-money policy for the purpose of trying to cushion business recession. It was surprising because the expectation had been that the Federal Reserve would start to shift by a gradual, unspectacular increase in the bank-money supply via open-market purchases of Treasury bills. The more dramatic initial move chosen probably implies further anti-deflation measures ahead, including some additions to money supply, which is not affected by discount rates and possibly an eventual cut in bank reserve requirements.

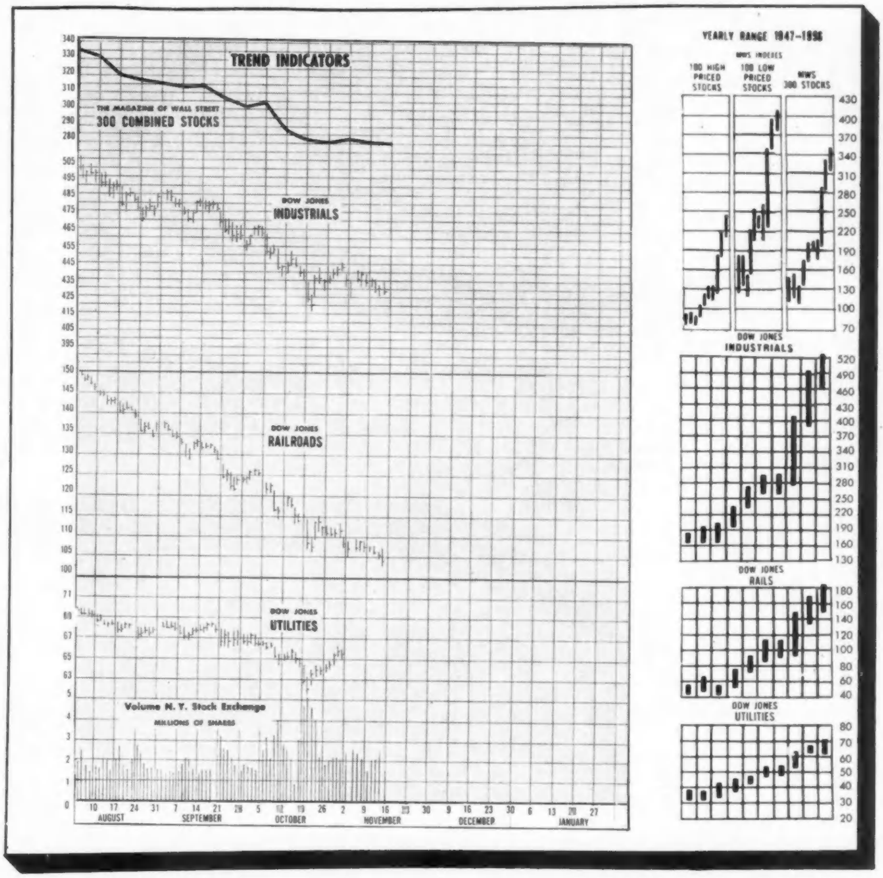


Market Response to the News

To a major extent, at least as long as variations in general business activity and corporate earnings are moderate, investment psychology makes the market. Without much change in industrial activity or earnings, a feeling of uncertainty regarding the outlook put the industrial average down about 66 points between August, 1956, and February of this year; and inflationary pressures put it up thereafter nearly 66 points to the July top. In the present situation, psychology had been blue for some time, with the average down 101 points to the October low, partly in correction of decided over-valuation of stock prices at the July highs, partly in allowance for some degree of business recession. Thus, the market was ready to respond to any surprising good news. So it rallied sharply last Friday, mainly under industrial and utility leadership. The utility average extended its October-

November upturn, even though by no more than a fraction of a point. The industrial average remained moderately under its October 31 rally level, closing at 439.35, up 11.41 points on the day.

What is the outlook now? So far as the business prospect is concerned, we certainly are not out of the woods. Shifts in official credit policy always take considerable time to have any visible effect on the general economy; and, because so many other variable factors are involved, it is never clear to what extent monetary policy actually governs upswings or downswings in industrial activity either in timing or degree.



Pointing up this fact, Reserve Board Chairman Martin warned recently that the Board has no "magic powers" to halt a business recession; and added that "when there is waste, extravagance, incompetence and inefficiency, the only way we have of eliminating it is in taking losses from time to time." In short, the Federal Reserve can do no more than "lean against the wind" of deflation, as it previously leaned against the wind of inflation. Despite its restrictive policy, we got inflationary excess in prices, in consumer debt, in inventories and in expansion of industrial capacity. Easier money—which would have come in due time anyway as a result of business recession and consequent reduced demand for credit—does not wipe out these excesses. They have to be corrected in the usual way by deflationary adjustments. About all that can be said is that credit policy, mainly via its influence on psychology, can help somewhat in holding the recession within mild-to-moderate limits.

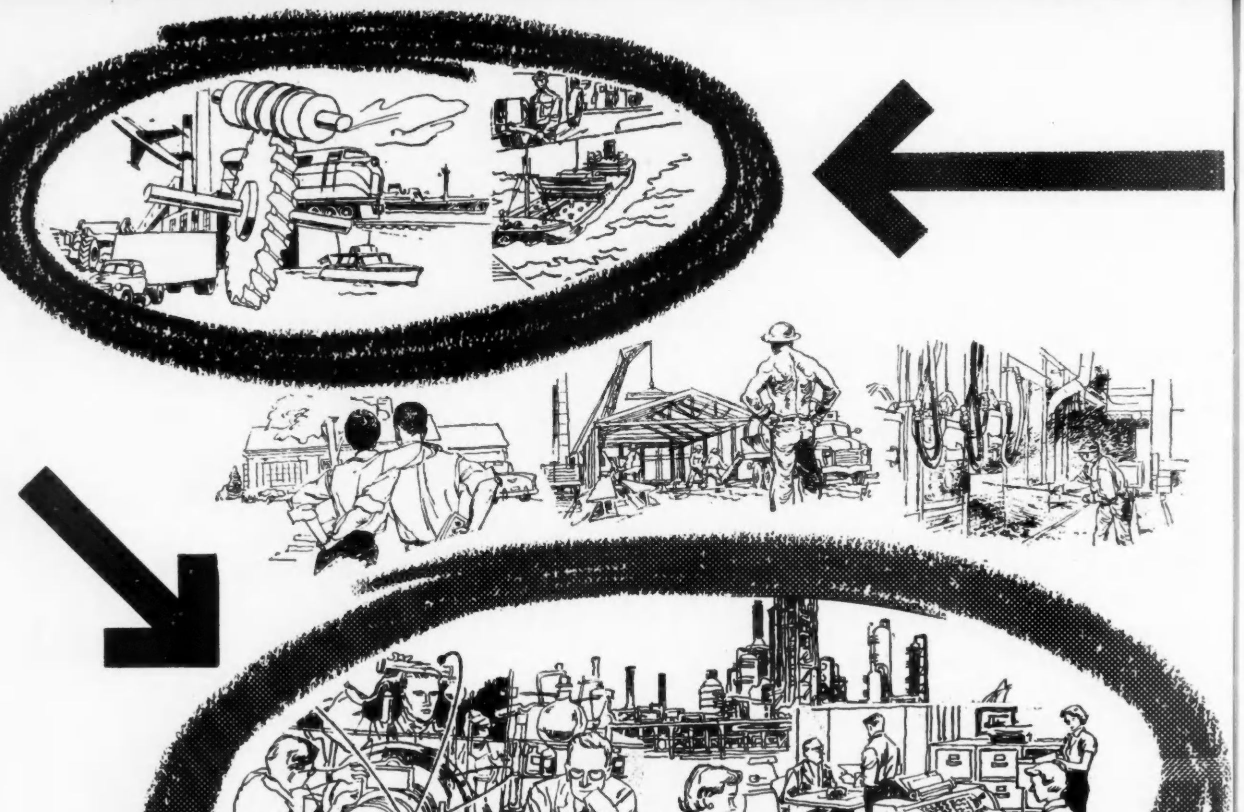
In 1953, with the Federal Reserve shifting from a tight-money to an easier-money policy, the market made its low in September. The production index did not begin to rise until the early autumn of 1954, roughly a year later. In view of the subsequent price inflation and the record-breaking capital-goods boom, the Board has been criticized for shifting too fast and too far in 1953. Hence, it had been thought that a policy change in the present instance would be gradual and cautious.

Why is it otherwise? The fact that the production index dipped another 2 points in October to 142, against peak of 147 last December, is not an adequate answer. Neither is the moderate rise to date in industrial unemployment. Perhaps the Board concluded that the risk of encouraging a new inflationary boom, via credit policy, is more imaginary than real in the existing situation. It will take time for demand to catch up with present industrial capacity. There could be some improvement—no boom—in capital outlays by, say, 1960. Another housing boom is distant, even though mild betterment is in sight. The auto industry seems years away from matching its 1955 boom production. No particularly strong revival of over-all retail trade, now trending down, is foreseeable. Despite increased emphasis on missiles, total Federal spending may increase only moderately in calendar-year 1958. The rise in state and local government spending probably will continue.

So, second thought could be that the monetary authorities are advertising their increased alarm over deflationary prospects and potentials. Although they might rally further, most heavy-industry and other cyclical-type stocks remain risky. Instead of adding to holdings here, we would use rallies to pare them. The bond market has certainly seen its low, and probably will trend irregularly upward for some time. That, plus stable-to-good earnings, implies that utilities and most other good-grade income stocks are likely to show greater stability—depending on how business holds up in local areas.

Possibly the industrial average could have a zigzag recovery to within the 455-465 area (roughly 4%-6% above recent best levels) by, say, early January, to be followed by another downslide test. In earnings, dividend yields and the moderate spread between stock and bond yields there is no basis for general investment enthusiasm.

—MONDAY, NOVEMBER 18.



What Business Looks Like In Various Sections of the Country

—By State—By Region

By JOHN RICHARDSON

During the last few years prosperity has been distributed fairly evenly throughout the country. Farm states have lagged at times, owing to the drop in farm prices; and "rolling adjustments" have temporarily affected various industrial areas, such as Detroit in 1956 when auto sales slumped—or Pittsburgh in 1954 when purchasing agents trimmed inventories. But on the whole, all sections of the country showed fairly uniform gains in consumer income and retail sales.

Now, however, the readjustment in business that has been under way for several months is beginning to result in marked differences in economic conditions among the various regions. Some, such as the South West demonstrate sharply conflicting patterns. In Texas and those parts of New Mexico where the economy is tied closely to oil production, the slump of this major industry has been an unsettling factor. But, conversely farm conditions are improving in much of the area, and a new burst of plant construction, especially in Arizona and New Mexico, is raising incomes and increasing retail sales.

Other areas are showing surprisingly good depression-resistant characteristics also, while some are exhibiting quite the reverse, and seem likely to

lead in any downward movement.

Interestingly, some of the states that made the best showings in recent years are reporting the sourest retail sales figures, currently. In the southern California area, defense cutbacks in aviation plants have hit hard, and the backwash has upset many of the smaller electronic component makers. Farther up the coast, the prolonged lumbering slump has lowered incomes in Washington and Oregon; and the entire area has been affected by a slower pace of new construction and metal fabrication.

The California dip could be short-lived, if the administration steps up the pace of the missile program, and generally calls a halt to the slowdown in defense spending. But in the heavily industrialized midwestern states of Ohio, Indiana and Illinois, where layoffs are beginning to result from capital spending curtailments, the readjustments may be more painful.

Moreover, that area, with its important concentration of population and business investment is such a vital sector, that events there can affect the entire nation. Till now, these states have enjoyed unprecedented prosperity, piling one record-breaking year on top of another, but the notorious "feast or famine" aspects of capital goods industries are again manifesting themselves.

Compounding the difficulties in the midwest has been the discontinuance of overtime payments in many defense plants, and the aircraft cutbacks in important cities, such as Cleveland and Columbus, Ohio. But the wariest eye is being kept on Detroit, where so far, employment has held steady as the automakers step up production of new models. Dealers are still building up inventories of 1958 cars and until the process is completed early in the first quarter, no real test of the strength of the auto market will occur. An adverse consumer response to the new models will have serious implications both for the immediate area, and the economy of the whole nation. Good demand, on the other hand, would be of inestimable value in rebuilding confidence, and may halt the downward trend in capital spending.

Consumer Spending Plans in Doubt

One of the most universal phenomena, and not a surprising one, is that in all sections of the country retail trade has proved vulnerable to news of relatively minor lay-offs in defense or other industries. Job uncertainty has made consumers less inclined to contract debts to buy merchandise (a factor which does not bode well for auto sales). Consumer income remains at, or near, record breaking levels, but in most areas fears that overtime pay will be cutback, or that job tenure may weaken are tending to neutralize this vast spending power. Since more and larger layoffs are undoubtedly coming, particularly in the Middle West, New England and the Middle Atlantic States, this does not augur well for retail sales in these areas, either for Christmas 1957, or for the first few months of 1958.

How much consumer income will be affected in the several regions will depend not only on the extent and duration of the capital goods slump, but on the measures the government may take to stimullate business activity and consumer confidence. So far, concrete administration proposals to deal with an impending recession have been lacking, but following the President's "science" talks to the people, it is reasonable to expect a follow through designed to rebuild faith in the economy, as well.

In the following discussions of the principal sections of the country, the reader will obtain a fairly rounded picture of the current state of business, employment and income, on a regional basis—as well as some indication of the extent to which they can be expected to respond to economic stimulants.

New England Still Slumping

In New England, several industries have slumped sharply. Backlogs of machine tool producers in the Connecticut Valley and elsewhere have been sharply reduced, forcing lower levels of production. Textile production too, is below the levels of last year, along with leather goods, paper, and primary metals. The manufacturing index for New England was down 4 points as long ago as last July, whereas in the United States as a whole, the manufacturing index was unchanged at 146 at that time. Since July, further slippage has occurred, with the national index down to 144 or even lower.

This downward movement on a rather broad industrial front has been reflected recently in a weakening of retail trade in New England. For example, in the four weeks ended, Nov. 2, department store sales in the First Federal Reserve District (Boston) were down 4 per cent, on a dollar basis. Allowing for the rise in prices during the last year, unit volume was down even more than that. In some New England areas, the decline in confidence has resulted partly from defense layoffs. Thus, in the Hartford area, United Aircraft, which holds a substantial part of the nation's jet engine contracts, recently dismissed 600 workers and announced that 1,400 more would be laid off in three plants by Jan. 1.

In the Second Federal Reserve District, which includes New York and New Jersey, defense cutbacks have similarly been felt. Hardest hit area here has been the Long Island aircraft complex. Republic Aviation and its suppliers laid off 5,500 workers, creating uncertainty in other plants.

The big New York financial capital has also been shaken by the stock market decline. This has tended to induce many employers to trim costs and lay off workers here and there. Luxury buying by those hit by lower stock prices has been reduced, and the impact may be even heavier during the Christmas shopping season.

Industrial activity in New York and New Jersey is largely dominated by the apparel industry, and these lines have also been hurt by reduced consumer spending. The Patterson, New Jersey area in particular has suffered.

Heavy Industrial Areas

In Eastern Pennsylvania, reduced steel plant operating rates are causing not only steel layoffs, but with carloadings dropping fast, railroad workers are also skating on thin ice.

Construction is also lagging in the area, reflecting reduced steel expansion outlays, and indications point to a greater than seasonal drop in cement output from the Lehigh Valley area. Coal mining areas, on the other hand, though off slightly from their peaks, are holding up relatively well, as utility oper-

Major Trends in 12 Federal Reserve Districts:

1. **Boston: Reduced output in machinery production and textiles and some stretch-out of aircraft engine deliveries in Connecticut has been reflected in poorer-than-expected sales at retail levels. Rate of industrial construction down sharply from a year ago. Outlook for Christmas trade not as good as last year.**

2. **New York: Defense cutbacks on Long Island and upstate have decreased consumer confidence. Apparel business, the major employer, may soon feel effects of reduced consumer spending. Commercial and industrial construction, at high level, exepected to ease off. Electrical machinery upstate still strong.**

3. **Philadelphia: Steel and metal working industries, operating well below capacity, likely to show little upturn for at least a year. Railroad carloadings, dropping to lower level, expected to touch off additional rail layoffs. Freight car building program slowing down. Tight money, uncertainty, curtailing plant construction.**

4. **Cleveland: Construction of plants and new machinery investments expected to dip at least 10 to 20 per cent in 1958. Steel output, running below 80 per cent of capacity, will do no better than hold steady in first half. Layoffs by machinery and steel producers is affecting consumer spending, as reflected in drop in department store sales.**

5. **Richmond: Cotton textiles showing weaker tone. Soft coal output, below year ago, heading for lower levels, due to reduced steel rate, lower exports, etc. Tobacco, cotton crops in decline. Industrial growth is not rapid enough to take up resulting slack in farm employment. Construction down from a year ago.**

6. **Atlanta: Diversified crop and soil bank income has helped to sustain retail trade. Cotton textiles, oil output and steel production running at reduced levels from early part of year. Industrial growth through new plant construction holding up better than in most parts of the country, chiefly in Florida and Louisiana.**

7. **Chicago: This heartland of heavy industry is feeling effect of reduced backlogs and inventory cutting in machinery manufacturing and appliance lines. Auto output still holding up and likely to continue so in first quarter, but thereafter, seasonal cutbacks may be fairly sharp. Threat of big auto strike June 1, 1958 increases. Consumer spending declining, due to scattered layoffs, and general reduction in overtime.**

8. **St. Louis: Cautious buying by retailers caused by recent dip in store sales. General industrial growth good compared with national average. Strikes in certain areas, and lay-offs by aircraft and appliance producers have dampened consumer confidence. Continued disappointing showing of appliance and steel manufacturing plants expected to continue through first half of 1958. Farm income steady.**

9. **Minneapolis: Reduced iron ore and copper mining together with leveling off of industrial output are partly offsetting gains in farm income resulting from better crops. Recent decline in lumber industry may be ended next year if housing construction holds steady or gains. Basic factor in area is harvest of second largest grain crop and improved outlook for livestock and farm income.**

10. **Kansas City: Incomes in this farm area up from a year ago. Feed and pacture conditions improved, pointing to continued good conditions in 1958. Retail trade steadier than in most other regions but nevertheless a bit lower. Construction steady.**

11. **Dallas: Improvement in cotton and other crops has only partly offset reduced activity in oil well drilling and defense plants, thus far. But any further slippage in industrial output, and oil production will show up in general reduction of trade and construction. Changes in oil production make impact felt on entire Southwest, as reflected in sharp gains in recent years.**

12. **San Francisco: Stretch-out and cancellation of aircraft orders, with accompanying layoffs, have chilled retail trade. Higher missile spending not likely to provide quick stimulus to employment or confidence. Retail trade well below year ago, particularly in Los Angeles defense areas. Population growth continuing. Crude oil and lumber output down sharply. Mining hit by lower prices for copper. Outlook for long term growth still good.**

ations continue in high gear and export shipments continue at good levels.

In the heavy industrial Fourth and Seventh Reserve Districts discussed earlier, slowdowns stretch across a broad industrial front. Among the machinery lines affected by the dip in capital investments, are foundry equipment, industrial furnaces, materials handling and road building equipment. The latter field expected a big boom with the launching of the Government's 13 year Federal Highway program in 1956. But road construction has been slow in getting under way, and meanwhile big inventories of earth moving equipment have accumulated. By next Summer, the highway program may be moving ahead, but it will take time to liquidate the inventories and book new orders.

In Chicago conditions are much the same as in the Cleveland area. Here too, steel output is off and agricultural and industrial machinery lines are lagging. Hopes depend largely on an upturn in auto output, if the 1958 models meet with consumer favor. But auto makers themselves are not forecasting much more than a continuance of the 6 million car a year gait of the last two years.

The dip in home construction this year has also proved damaging to the industrial north, where much of the nation's home equipment is manufactured. If money conditions are eased, home construction may improve, and already, measures have been launched to attract more mortgage money. But it seems unlikely that any important gain in home construction can offset the dip of 7 to 10 per cent in plant investments next year.

The Industrial South

In the Fifth Federal Reserve District (Richmond), farm conditions have not responded as well as they have in the Middle West, to efforts to bolster rural incomes. The tobacco and cotton crops of the Middle Atlantic states have been diminishing in importance as other Southern and Southwestern states intensify their efforts in these crops.

Textile manufacturing, too, has been dipping here owing to recent overproduction, and prices of fabrics appear to be softening. This area has been working hard to attract new industries to offset the decline in cotton and tobacco. The new plants established here in recent years have substantiatlly improved the average annual income per person, but the level is still well below the national average. The pace of new plant recruitment is likely to be slower over the next year or two.

In the Southeastern area conditions are somewhat better than in the Middle Atlantic area, owing to more crop diversification, soil bank payments, and the increased movement of industry into the area. Florida, particularly, has been enjoying a land boom, as a result of the entrance of new aircraft instruments and missile plants, and because of the appeal of the state as a residence to many older workers and pensioners. In the past, Florida has often paid a price for its recurrent booms, but the industrial basis of the present one appears to be sounder than those of the past. In other parts of the Sixth district, however, such as Louisiana, the dip in oil production is hurting local economies.

In the Eighth Federal Reserve District, industrial activity has been easing lately, particularly in steel, appliances and some aircraft plants. Missouri has been successful in winning 110 new industrial plants during the first six months of the year. But here, as elsewhere, the labor relations outlook has become more threatening. Strikes have tied up several plants, and a pronounced trend towards increased labor tension throughout the country appears to be under way. In large part, this results from inability of manufacturers to pass along the high cost of inflationary wage settlements.

Farming and Mining Districts Have Mixed Trends

The complexity of our economy and the interdependence of the various sections of the country makes it virtually impossible for any one area to be immune to generally unfavorable developments. Thus in the dairy and farming Ninth District, farm income so far is holding up well, after the price slump in 1956, but northern Minnesota's mining economy is slowing down, as demand for ore slackens. Furthermore lake shipping activities have shut down earlier this year than in the recent past, denting the area's disposable income. A winter shutdown of ore-boat activities is the rule, but this year it may be accompanied by a decline in laker shipbuilding as well. Furthermore, after the ice thaws in the spring it is unlikely that activity will return to the levels of a year ago.

Farther west, mining activity in the Montana copper-belt has slumped off sharply as high-cost units have been taken out of production, and other mines slow their output. Uranium mining activity continues at a steady pace in Colorado, and gold mining activities may pick up slightly, but neither offer enough stimulus to offset other declines.

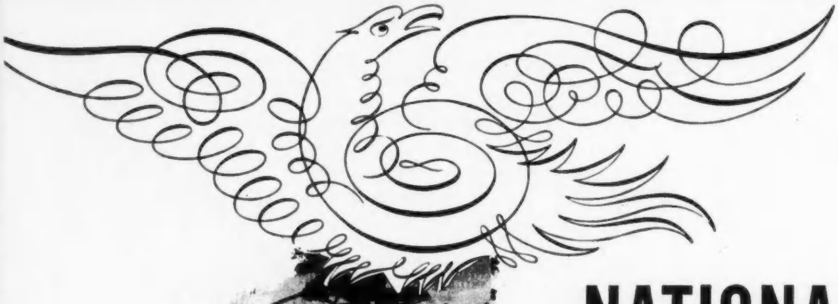
As mentioned earlier, the Southwest presents a more varied picture highlighted by an agricultural comeback for the dustbowl, and industrial activity in Arizona and parts of New Mexico. Nevertheless oil and natural gas dominate the region, and these are definitely off from their earlier peaks. Some hopes are held out that the unhealthy oil inventory picture will be worked down in the early months of 1958, but so far it is more hope than promise.

Summing Up

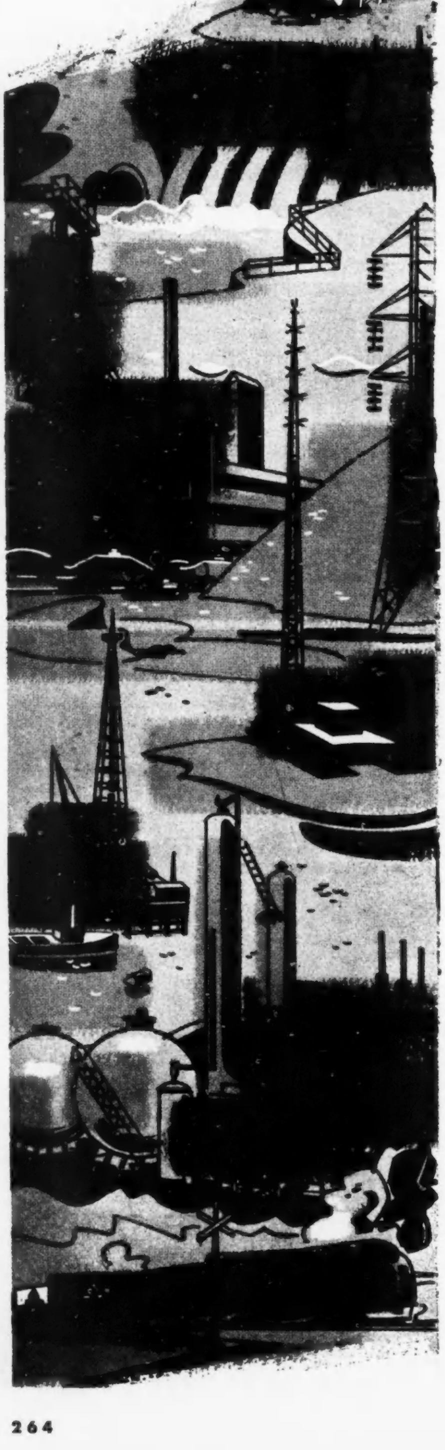
Toting up the region-by-region picture, it is apparent that most areas are in the early stages of a recession that has some earmarks of being more than a "rolling adjustment." Those most closely identified with capital goods industries, as in all recessions, will feel the pinch earliest and probably longest. But all areas in which overexpansion of productive facilities has been the rule may find the adjustment painful, although there is nothing in the wind to indicate that it will be disastrous.

The present trend has already gathered enough momentum to carry it well into the first half of 1958, but by the latter part of the year new stimulants may begin to appear. Roadbuilding programs should get off to a good start in the spring; the last election witnessed a sizeable amount of schol construction and authorizations.

So far some of the water is being squeezed out of the speculative excesses of the boom years. There is no reason to suppose that any more than this is in the making. If true, it may be all to the good.



By PAUL J. MAYNARD



NATIONAL SOLVENCY

Key To American Leadership

- **Humphrey Says** — *We must hold the line — it is fatal to raise the debt ceiling*
- **The Voice of Expediency Says** — *Let's do away with the debt ceiling — the sky is the limit*
- **Voice of Common Sense Says** — *Do we want to pay the price of insolvency — and what does it mean to all the people of the U.S.?*

Between now and February most Americans can look forward to some happy times. For the kids there'll be the Thanksgiving turkey and the visit from Santa Claus. For the winter sport enthusiast the period ahead promises hours of skiing and skating. For the party-goer there'll be a round of Christmas parties and the big blast on New Year's eve. For everybody (especially welcome to the morning-after set) there'll be the bracing weather that usually accompanies a drop in the thermometer.

But one prominent U.S. citizen – Treasury Secretary Robert Anderson – isn't especially looking forward to the next three months. The reason is understandable: He'll be sweating out a tight fiscal squeeze. The Treasury boss will have to pay a flock of Government bills with only a relatively small amount of cash in his pocket and with his power to raise more cash restricted.

Secretary Anderson's problems are not new. They are the same ones that often kept his predecessor, George Humphrey, burning the midnight oil. The U.S. lag behind Russia in missiles may well keep the White House working long into the night in the weeks ahead. Chances are the block-long Treasury Building, across the street, will also be ablaze as Secretary Anderson and his aids figure out ways to pay the bills without breaking the law by over-borrowing.

The next few months will be a tough period for the Treasury because its tax take will be skimpy while Government spending will stay high. There'd be no problem, of course, if Secretary Anderson had plenty of borrowing power. But he has less than $1 billion leeway under the $275 billion public debt limit set by Congress.

In the past few years Treasury Secretary Humphrey asked Congress for–and got–a temporary hike in the debt ceiling to tide him over until heavy March tax receipts flowed in. This year, however, the Administration figured it could get by without an increase in the ceiling.

In order to avoid exceeding the limit the Administration ordered a hold-down on Federal spending. The single most important action was the $38 billion lid slapped on defense spending in the current fiscal year. From this action there stemmed a number of stretched-out production schedules, limits on overtime, restrictions on payments, and cuts in the armed forces.

Then came "sputnik" and a month later, "muttnik"—with all that these "moons" implied for Russian military missile prowess.

It is not yet clear what impact Soviet missile and satellite accomplishments will have on over-all Federal spending. President Eisenhower, in his October 30 press conference, admitted that the once-hoped-for $38 billion defense spending ceiling in the current fiscal year would be exceeded by at least $400 million. This extra spending probably won't add greatly to the Treasury's troubles of staying under the debt limit in the next few months because it will take some time before the accelerated programs are reflected in demands on the Treasury. Nevertheless, the spending speed-up can hardly be cheering to Secretary Anderson.

The other side of the fiscal ledger—tax receipts—also contains some worries for the Treasury Boss. The consensus among business leaders and economists seems to be that business is going to move sideways for the next six to nine months. A sizeable number of economic seers, however, are more pessimistic: they see a "moderate" recession in the months ahead.

All this raises the possibility that the Treasury's tax take may well suffer—whether business recedes or merely fails to expand. It is significant that the President's Council of Economic Advisors estimated in October that corporate profits before tax in the second quarter, at $42 billion, were down $400 million from the same period a year earlier. On the brighter side: personal income in September ran at $346 billion annual rate—$15 billion over a year earlier.

Holes in the Ceiling

With Soviet satellites pulling up Federal spending, and the business pace threatening to push tax receipts down, what's the outlook for the next few months? Will the Treasury get through until the tax dollars come flooding in in March?

Barring an international blow-up, the answer in all likelihood, is yes. The public debt will probably nudge the ceiling, but the Treasury will squeak through. (It'll come fairly close to the limit when it completes its cash borrowing towards the end of this month.)

One reason that this prediction is safe is so obvious that it is often overlooked: the Treasury can't do anything else. With Congress out of town the ceiling can't be raised and the Treasury must stay under it. A United Press reporter posed this question to the Treasury on October 31: "What happens if the debt goes over the limit?" To which a Treasury official promptly answered: "It just can't, that's all there is to it. No matter how rough things get, we have to stay within the ceiling."

There are several other reasons why the Treasury won't exceed the borrowing limit. A breakthrough can be avoided by simply skirting around the ceiling —with the help of some financial gimmicks.

One gimmick that will probably be used before the year end (it was used by Secretary Humphrey in the 1953-54 struggle with the debt limit) involves the remaining $495 million of free gold in the cash balance. This gold represents part of the "profit" the Government made when it devalued the dollar in 1934. The Treasury could issue gold certificates against the yellow metal, turn them over to the Federal Reserve, and receive a deposit credit on which it could draw checks to meet Government bills.

The way the Treasury handles the gold transaction will determine its impact on the economy. For example, the move would tend to have inflationary effects if the Treasury simply spent the deposits created by the "Fed". Presumably, the Administration would be much less averse to doing this in a time of business ease than it would in a boom. If the gold was used to reduce the public debt, as was the case under Mr. Humphrey, there would be no inflationary impact.

Another gimmick available to the Treasury is the borrowing power of various public corporations. Their borrowings do not come under the public debt ceiling. This technique was used only a few weeks ago. The Federal National Mortgage Association raised some $800 million in mid-October by selling its own notes in the public market. It then used the proceeds to repay Treasury indebtedness. Various other public corporations could be called on to do the same thing.

Yet another way Secretary Anderson can squeak through under the wire is to let the cash in the Treasury's kitty run down. At the end of October the cash balance stood at about $4¼ billion. It can be pulled down much further than that; last January 16, for instance, it was down to just over $2 billion. It's one thing, of course, for the Treasury to let its cash run low when it has authority to borrow more money. But a low cash balance—and no more borrowing authority—is enough to give any Treasury Secretary the sweats.

Ever since the Soviet earth satellites began spinning around the earth there have been demands that Congress scrap the debt ceiling so the Government "wouldn't be hindered" in "catching up with the Russians." Why should we let an arbitrary limit on our debt stand in the way? The ceiling is no real ceiling anyway, the argument goes, because Congress can raise it any time.

The proponents of such action apparently believe

TABLE I

Rates of Interest and Depreciation of Money

Country	Indexes of Value of Money 1946	Indexes of Value of Money 1956	Annual Rate of Deprec. (Comp'd.)	Rates Offered on Gov't. Bonds 1946	Rates Offered on Gov't. Bonds 1956
Switzerland	100	86	1.5%	3.10%	3.23%
Germany	100	72	3.2	n.a.	4.90
India	100	72	3.2	2.88	3.98
United States	100	71	3.4	2.19	3.27
Venezuela	100	70	3.5	n.a.	3.63
Netherlands	100	67	4.0	2.99	4.10
Canada	100	65	4.2	2.61	3.88
South Africa	100	65	4.2	2.89	4.75
Sweden	100	65	4.3	3.01	3.74
United Kingdom	100	65	4.6	2.76	4.86
New Zealand	100	59	5.2	3.01	4.73
France	100	58	6.5	4.26	5.48
Mexico	100	47	7.4	10.44	10.12
Australia	100	46	7.5	3.24	5.04
Brazil	100	26	12.7	n.a.	12.00
Chile	100	5	25.3	9.22	13.82

that by simply abandoning fiscal restraints and spending additional billions of dollars we will forge ahead of Russia in the space race. The actual effect of their proposal, however, would be to loose the Federal floodgates of money and credit. More borrowing by the Government would put a strain on the money markets, exert upward pressure on interest rates. More spending by the Government would mean more bidding away of goods and services from the private sector of the economy. Increased competition for a fixed amount of goods and services would only mean rising prices—*and we can't beat the Russian with inflation.*

Admittedly, the debt ceiling should not be considered inviolate. During World War II it was raised to $300 billion so we could have the credit to provide the sinews of war for ourselves and our Allies. If the need should arise, the Congress would undoubtedly raise the ceiling again. But we should not delude ourselves into thinking that merely by spending more and borrowing more we will get any stronger. In fact, the result could be just the reverse; defensive strength, just like everything else, is weakened by inflation. *We have got to live within our means—and the debt ceiling serves as a reminder that there are limits to how much we can do.*

Congress has already lost much of its control over the Federal budget because of the billions of dollars of unspent appropriations that are carried over each year by the Administration. The debt limit is the lawmakers' last remaining fiscal control.

Instead of relying on financial gimmicks to skirt around the debt ceiling, the Administration would be on sounder ground if it held spending below tax receipts and used the surplus to reduce the national debt. If more money must be spent on missiles and other defense projects, then less should be spent on non-defense programs. Raising the debt limit won't raise the limits on material and manpower resources. Rather, it would give impetus to inflation and add to the taxpayers' already heavy load (nearly $8 billion a year) for carrying the public debt.

TABLE II

Prime Loan Rates in 54 Countries

Country	Rate	Country	Rate
Bolivia	16	Iraq	6 - 7
Korea	12 -15	Singapore	6 - 7
Chile	12 -14	Spain	6 - 6½
Greece	12	Colombia	6
Brazil	12	Dominican Rep.	6
Israel	11	El Salvador	6
Peru	11	Guatemala	6
Ecuador	10	Liberia	6
Austria	9½	South Africa	6
Mexico	9½	Venezuela	6
Germany	9	India	5½- 6½
Japan	9	Egypt	5½- 6
Finland	8 - 8½	Hong Kong	5½- 6
Argentina	8	Australia	5½
Uruguay	8	Canada	5½
Iran	7½- 8½	Netherlands	5½
Italy	7½	Great Britain	5¼- 5½
Turkey	7 - 9	Philippines	5 - 7
Denmark	7 - 8	Belgium	5 - 5½
Syria	7 - 8	Portugal	5 - 5½
Costa Rica	7	Cuba	5
France	7	New Zealand	5
Honduras	7	Panama	5
Lebanon	7	Norway	4¾
Nicaragua	7	Switzerland	4½
Sweden	6½- 7	Puerto Rico	4¼
Ireland	6¼	United States	4

Too Much Too Fast

The trouble in this country is that we have been trying to do too much too fast. The result has been a strain on the capital markets, rising interest rates, and a decline in the value of the dollar. Instead of trimming back its outlays and releasing resources for the citizen's productive use, the Federal Government has increased its spending in line with rising revenue. The debt ceiling has been an effective restraint in keeping this spending from rising even more swiftly.

Inflation is a common problem; everywhere the value of money is being eroded. The disease is more virulent in those countries which have exercised the least restraint in government monetary and fiscal (budget and tax) policies.

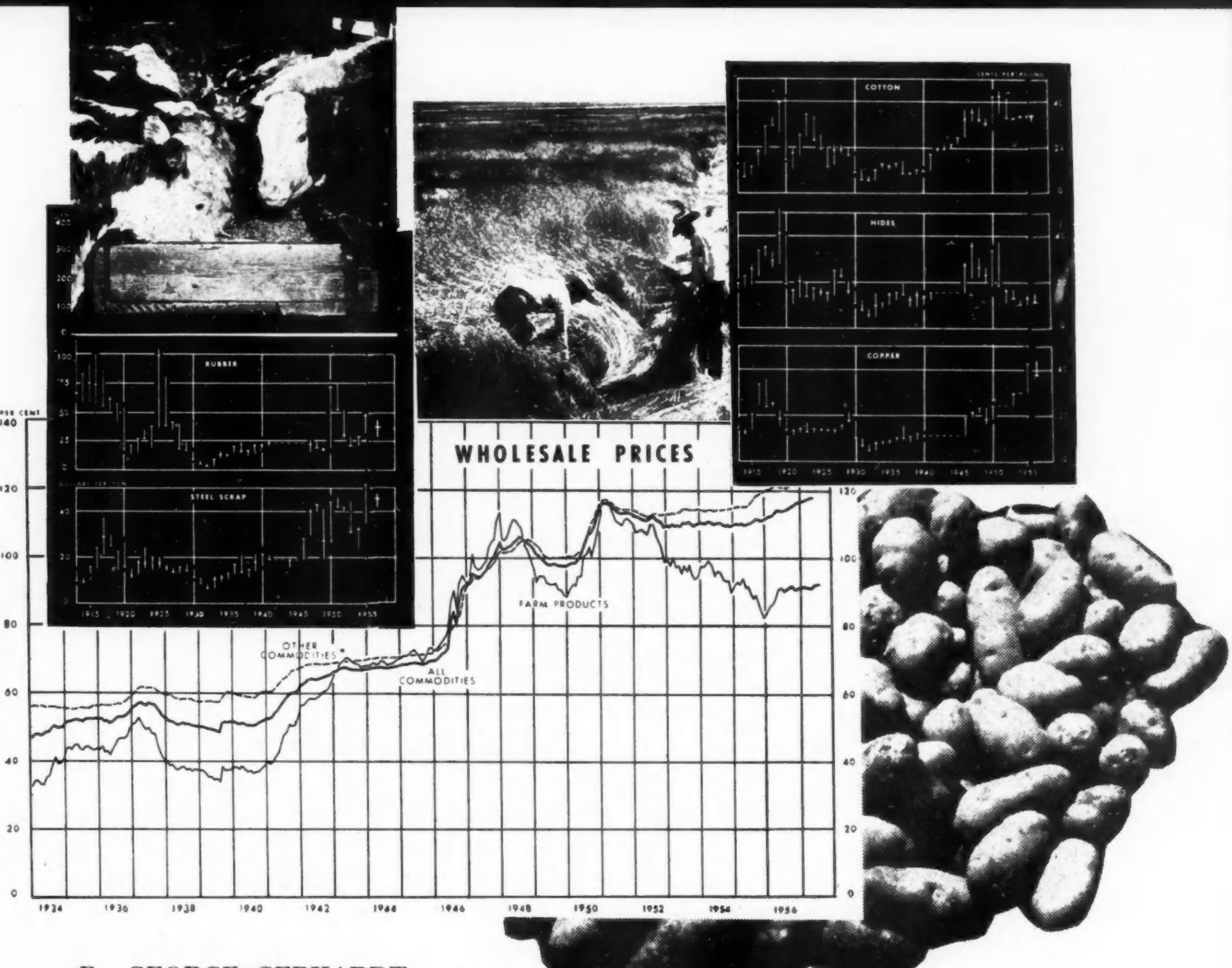
In this connection, two interesting tables, compiled by First National City Bank of New York, are worth careful consideration. Table I, covering 16 countries shows the depreciation of money between 1946 and 1956 as measured by official cost of living indexes.

Despite the rise in interest rates in this country over the past two years, rates here are about the lowest in the world. Table II represents an assembly of the cheapest rates at which business firms of the highest credit standing can borrow on an unsecured basis in 54 countries. It must be borne in mind that money is scarce at these minimum rates; that most borrowers able to obtain funds pay higher rates; and that, in many countries abroad, borrowers have to pay loan commissions besides interest. Since this table was compiled there have been a few changes (e.g., France is now 8½%, Britain 7¼-7½%, and the U.S. 4½%), but the over-all list gives a good indication of interest rate levels abroad.

A Look Ahead

The outlook for interest rates both here and abroad depends on your outlook for an end to creeping inflation. In the short-term, a business recession in this country, with accompanying smaller demand for loan funds, will likely bring about an easing in money rates. Depending on the depth of the business decline here, and the extent of the drop in our imports, there are bound to be some economic repercussions abroad. It is well to keep in mind, however, that foreign countries didn't catch pneumonia from this country's 1953-54 recession sneeze. As a matter of fact, heavy imports by foreign countries at that time propped our own business pace.

For the longer run, an end to the secular rise in prices—including those for hiring money—is far from certain. Shortages of loan funds and mounting interest rates are symptoms of the inflation disease. The cause of the disease is trying to spend more than we earn from production. Cutting demand down to a sustainable relationship to supply cannot be done painlessly. (*Please turn to page* 298)



By **GEORGE GEBHARDT**

Over-Production and Surpluses Weight Down Commodity Prices

with Exceptions

The evidence is accumulating that the post World War II inflation has passed its peak and that the process of deflation is under way. At this particular point in time, it is impossible to determine how far the commodity price level may decline in the months ahead. Also, it is far from clear whether we are headed for a permanently lower price level, as always has occurred following wartime and postwar inflation, or whether a fresh inflationary impetus is likely to send prices upward again before many months have passed.

High and steadily rising prices have persisted for so long that the general public has become conditioned to expect a perpetual continuation of the uptrend. This is equally true, apparently, of the majority of business men and investors. The belief is widespread that the cost of production is the sole and constant determinant of prices and that, with the trend of wages ever higher, there is no possibility whatsoever of a reversal of the long price uptrend.

Furthermore, there has developed intense faith in the ability of Washington to combat quickly and successfully any deflationary trends that develop. Little consideration appears to have been given to the fact that the Federal Government was not able to check inflation and may be no more successful in checking deflation.

Logic does not appear to play an important role in the attitudes of numerous individuals towards a major reversal of the long inflationary commodity price rise. It is only too evident that, although practically everyone protests over the effects of inflation,

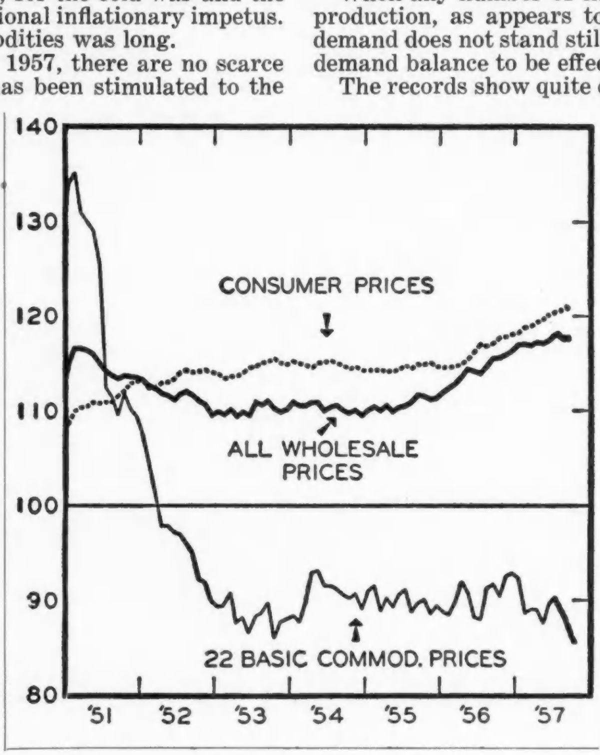
no one wants to see deflation. Even the Federal Reserve Board, the arch-foe of inflation has now attempted to turn on the inflationary tap by lowering the rediscount rate.

The initial postwar price advances were the result of several factors, most prominent of which was the huge demand for materials and goods. Some of this represented consumer demand that had been pent up for years, going back as far as the Long Depression of the 1930s. Some stemmed from the reconstruction of the European economy.

Once price controls were abandoned, prices soared to their "natural" supply-demand determined levels. But, they didn't stop there, for the cold war and the Korean war provided additional inflationary impetus. The list of "scarce" commodities was long.

Now, in the late Fall of 1957, there are no scarce commodities. Production has been stimulated to the point where surpluses exist in many areas.

Industrial productive capacity has been increased sharply in recent years, to well in excess of current consumption in most instances. In the opinion of a number of economists, it will take several years for consumption to catch up with production and productive capacity.



Historical Pattern

The Bureau of Labor Statistics wholesale price index made an all-time high last August and since has backtracked just a little. The cost of living, as measured by the BLS Consumer Price Index, still is rising. However, the rate of gain has been slow recently, with price strength confined largely to services as opposed to commodities.

The turning of the tide from inflation to deflation never has been heralded by trumpets. In the past, it has been quite usual for the tide to turn and for deflation to be well under way before the business community became aware of the fact.

However, the historical behavior of certain groups of commodities and the manner in which they fall into line one after another, even while the general price trend still is upward, always has been very similar on the "eve" of a major price downtrend.

Farm products prices weaken first, reflecting huge accumulations of surpluses. Later, other commodities start to give way—lumber, as the building cycle moves into a downward phase, and the nonferrous metals as surpluses replace shortages and demand contracts. Textile products prices decline in this period.

Cost of Production

Certain commodities, such as steel and durable consumer goods, customarily have lagged well behind on general price downturns.

In the past, as now, it has been quite usual for many people, including numerous economists who should know better, to point to the rigidity of labor and other production costs as "proof" of their contention that deflation "cannot" occur.

Widely overlooked or ignored is the all-important fact that so-called administered prices, determined on the basis of cost of production plus, must operate within the framework of supply and demand. When demand slackens, production must be cut back to bring supply and demand sufficiently into balance to be able to maintain prices.

When any number of industries begin to cut back production, as appears to be occurring at present, demand does not stand still waiting for a new supply-demand balance to be effected. Demand declines, too.

The records show quite clearly, as a matter of fact, that such items as steel and consumer durables are not irresponsive to deflationary impacts. They merely are slower in turning down.

Posthumous Price Advance

It has not been at all unusual for prices of steel, durable goods, and a number of other items to be marked up after an inflationary movement had topped out.

Nor has it been unusual, after the deflationary tide had turned a little, for some individual agricultural commodities to register rather pronounced strength, of a rather temporary character to be sure, in reflection of reduced crop prospects. This has occurred recently in the case of both cocoa and cotton, for example.

Coffee, in increasingly large supply, has strengthened as a result of a withholding movement among the Latin American producing countries, sponsored by Brazil. Those of us who are old enough remember when Brazil, following an attempt to maintain coffee prices, was so overwhelmed with surpluses of the commodity that it was burned in railroad engines instead of coal. The very fact, of course, that there is such willingness on the part of coffee producers to withhold supplies attests more than can anything else to the underlying weakness in the coffee price structure.

Copper, after a long and rather sharp nosedive, has tended to steady recently. Custom smelters tried to mark up prices a bit, but last week hikes were rescinded. Here again, the records show that copper, along with some of the other commodities that customarily let go long before the general price level has attained its peak, is rather prone to strengthen very temporarily as deflationary forces begin to gather momentum.

The historical records indicate rather clearly that

these late-in-the-day markups are no more than "last gasps."

World Prices Declining

For some years now, the trend in economic thought has become increasingly nationalistic. The price level here, according to rather general belief, is primarily the reflection of official Washington determinations on defense spending, tightening or easing of credit, and so on. There are many, indeed, who honestly believe that easing of credit by the Federal Reserve Board would overcome almost immediately the hesitancy that has been developing in business and would start prices off on a fresh inflationary whirl.

Sight has been lost almost completely of the economic interdependence of the world and the all-important fact that commodity prices are made in world markets as a reflection of world supply and demand conditions.

The trend of primary commodity prices abroad, allowing for currency changes, closely parallels the trend of primary commodity prices in the United States. Both here and abroad, primary commodities have been declining sharply since late 1956. The easiness in copper, rubber, and wool—important industrial materials—stemmed from abroad.

Invariably, the trends in primary commodity or materials prices have set the pace for the general commodity price trend.

We cannot laugh off or try to explain out of existence the deflationary implications of the reversal of the inflationary primary materials uptrend.

It could be that something new has been added to the situation, or that Washington monetary and fiscal policies now are sufficiently powerful to affect the commodity price structure of the entire world. At this time, however, with increasing evidence of mounting deflationary pressures, it would seem better to be safe than sorry.

Capital Spending and Prices

One of the most important factors contributing to strength in the general commodity price structure during recent years has been the high and, until very recently, rising totals of capital expenditures for new plant and equipment.

Price advances in construction materials and in machinery have far outrun the advances in commodity prices as a whole.

Total capital spending this year is estimated at a new all-time high of $37 billion, although the rate of spending has slackened since mid-year. Estimates of capital expenditures for 1958 show declines ranging from 7 to 20 per cent.

It is obvious that industrial planning is in a state of flux at the present time, owing in part to the failure of business activity this Fall to register the anticipated seasonal improvement, and that many expansion programs may be put back on the shelf to gather dust for a few years.

In the past, after several years of sharp rise to new peaks, capital expenditures invariably were cut back very sharply when the turn came.

Accordingly, it well may be that the rate of spending in 1958 will be reduced more than currently anticipated.

The historical records show that commodity prices always have declined, sometimes quite sharply, when capital expenditures were cut back following the attainment of a new high peak. This is understandable in view of the dynamic impact on the entire economy of capital spending.

Interest Rates and Prices

It is not generally known that interest rates follow a rather well defined cyclical pattern, and that we now are moving into an upward phase of the cycle that should last for a number of years.

This is another worldwide trend. On the basis of the evidence that interest rates move cyclically and that we now are moving into an upward phase of the cycle, the tight money policy of the Federal Reserve Board appears to be nothing more than following the trend. If the Board attempts to reverse its policy, it may find itself trying to buck a worldwide trend.

Easy money and low interest rates go hand in hand with high commodity prices. Conversely, tight money and high interest rates go hand in hand with low commodity prices.

To the extent that interest rates continue to follow a cyclical pattern, we may expect commodity prices to decline for a long time to come.

Sputnik, Muttnik, and Prices

The recent successful launching of earth satellites by Russia has served to focus attention on the fact that methods of warfare have changed dynamically within recent years. Ballistic missiles carrying atomic warheads have rendered obsolete both traditional weapons and mass armies.

For years, the United States and several other countries have been accumulating huge stockpiles of strategic materials, based on the belief that the next war, if it should come, would be fought along much the same lines as the last war.

The accumulation of these materials, at a time when the postwar civilian demand for goods was high and rising, was one of the important factors in elevating the general price level.

Now, rather suddenly, we are discovering that the need for much of these stockpiled materials has passed. Great Britain has been paring down her stockpiles, and the United States is pondering ways and means of doing the same without too much disruption of prices.

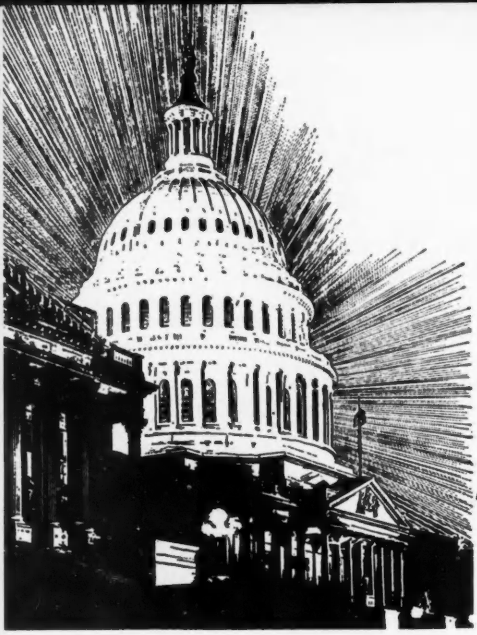
The recent trend in defense is for less emphasis on materials and increased emphasis on research.

Gold and Prices

We are intrigued no end by recent studies on the relationship of monetary supplies of gold and the price level made at Cornell University by Professors Pearson, Myers, and Gans.

For many years, as demonstrated by these studies, the annual rate of additions to world monetary gold stocks has exerted a direct relationship, with a 13 year lag, on the commodity price level in the United States.

Interestingly enough, even though gold was "demonetized" in 1933, the relationship between the annual rate of additions to gold stocks and the price level has not changed. (*Please turn to page* 314)



Inside Washington

By "VERITAS"

OPPOSITION to curtailment of Federal grants-in-aid to states, hinted in earlier discussions by AFL-CIO leaders, has taken on the elements of a full-fledged campaign to defeat proposed re-allocation of income sources. The Department of Research has prepared an analysis which will be widely publicized to support the contention that not only must Federal aid be continued, but also there must be increases in some areas. A Presidential Commission has proposed preliminary steps, marking out tax levies which Washington might relinquish to the States, and vice versa.

WASHINGTON SEES:

In the concentration of public discussion on the arms race, sight is being lost of domestic problems which Congress must tackle at a session now less than two months away. Before there can be any impressive showing in point of national defense, it seems evident that decisions must be made with respect to fiscal programs and labor-management policy. If the promise of transition from drawing board to assembly line is to be accomplished during the next fiscal year, there must be preparation.

President Eisenhower has been quoted by such intimates as Senator Styles Bridges as favoring $1-2 billion more for missile work in the business year beginning July 1. The Pentagon is inviting speculation that its needs for next year will be $5 billion over the current budget. If either figure is accepted—or even combined—the total will be less than the military services set out to get when they submitted their estimates one year ago. This hardly reflects a "new look." But these figures pose a problem for Congress; whether to "find" the new funds within a budget roughly the same as this year's; increase the overall spending; force economies within other branches of government.

Senator William F. Knowland will campaign in strategically important California for right-to-work legislation while Secretary of Labor James P. Mitchell announces he'll campaign against removing a union card as an essential to employment. This split could raise havoc in California, and tie Congress up in knots.

SEARCHING for ways to continue Federal operations without crashing the public debt ceiling, the Administration will revive the lease-purchase plan for construction of public buildings. The system calls for erection of public structures – post offices, court houses, hospitals and the like – under private financing with the government taking title on retirement of the construction loan. General Services Administration gave it a try last year, abandoned it; now GSA is ready to ask for bids on 10 projects, estimated total value $38.5 million, with more to come.

CEMENTING leadership in NATO is the prime purpose of President Eisenhower's planned trip to Paris next month. The fact that the Chief Executive is making the trip at this time is proof that the underpinning is showing signs of weakness despite the fact that Uncle Sam picks up most of the tabs. World leadership has been thrown out of balance by Russia's progress in the field of science, and by events at home. For the first time since he went to the White House, Ike cannot assure NATO that his pledges will be kept by Congress and indorse his statement with proof of Capitol Hill support. One thing is certain: he will play down his "economy program."

WAR CHEST of organized labor is being sustained through a "scare program," in which the Committee on Political Education is warning dollars must build a barricade against legislation inimical to unionism. COPE Director James J. McDevitt has messaged every local, urging the $1-per-member donations keep flowing because "reactionary industrial and political leaders are determined to push through legislation to cripple the labor movement."

As We Go To Press

▶ The Treasury's sidestep of direct borrowings that would pierce the statutory debt ceiling, creates a paradox. It raises the question whether the figure entered as the outstanding obligations of the Federal Government tells all. Interest is heightened by a brand new ruling by the Internal Revenue Service (a branch of the Treasury). Recently, "Fannie May" refinanced to the extent of $750 million and turned the proceeds over to Secretary Anderson to ease the strain on the debt limit. Now, in a comparable case, IRS reiterates the pleasant notion that certain lending agencies operate outside the national debt, BUT, it said, ultimate responsibility rests with the Treasury. With the possibility ahead that the new session of Congress will up the statutory limit, Congressmen are bound to ask: "How much do we now owe?"

▶ The IRS decision came in the form of a declaratory judgment. The facts were not litigated but the Bureau outlined its position with respect to interest-bearing, negotiable securities of the Commodity Credit Corporation. The Federal Reserve Bank of Chicago was CCC's fiscal agent; it described the instruments as participation and interest in a pool of outstanding loans made pursuant to the commodity loan programs. (In the "Fannie May" situation, participation in accounts receivable also was involved.) IRS recited these facts and commented: "The certificates are not obligations of, nor guaranteed by, the United States so as to be public debt securities. However, under their terms, the Commodity Credit Corporation is committed to purchase them at their full outstanding principal amount, plus accrued interest, at their maturity, or upon demand at any time except during the period immediately preceding maturity date."

▶ Noting that full payment of the certificates is guaranteed by the Commodity Credit Corporation, that the authorized capital stock of CCC is held by the United States, that its business is generally supervised by the Secretary of Agriculture, the Federal tax collector wrote: "It (CCC) is required to reserve a sufficient amount of its authorized borrowing power to enable it, with other funds available to it, to purchase, in accordance with its lending agencies, notes or other obligations evidencing loans made by them under its program, including outstanding certificates of interest such as those here considered." IRS expanded the scope of its ruling by noting that "government insured loans... applies to all government insured or guaranteed loans to the extent or percent insured or guaranteed."

▶ Mobilization of industrial and business know-how began within the past several days. The National Defense Executive Reserve was summoned to Washington, D. C. for Nov. 13-14 meetings to receive tentative assignments from Defense Mobilizer Gordon Gray and Commerce Secretary Sinclair Weeks. Ike dropped around, manifestly to lift the session from the routine and impress its importance. Military brass and Congressional leaders were on the schedule. Present were about 800 members of the executive reserve, selected and trained for government executive positions in any future defense emergency. Each is a trained executive or administrator who has signified his immediate availability -- after being requested to do so. The reservists are drawn from industry, labor, agriculture, public and private institutions.

▶ The often ignored and sometimes harassed men of business and industry, as well as labor, learned that they will be expected to do jobs in their specialties comparable to the work of the military specialists on the line. On record as needing, and wanting, these services in time of national emergency are the Departments of State, Defense, Commerce, Justice, Labor and Interior; the U.S. Information Agency, Interstate Commerce Commission, Small Business Administration, Central Intelligence Agency, Housing and Home Finance Administration and the Office of Defense Mobilization.

▶ It is becoming evident that Federal agencies are more effective in tightening the money market than in loosening it. Last August, when the home building industry was protesting against the harmful effect of tight money on their business, the Federal Housing Administration eased up on loan terms. Down payments were lowered, the interest rate on FHA-backed mortgages was raised to attract more private capital and a limit was put on the amount of discount allowed in case the mortgage was sold later. Surveys indicate lenders generally are asking more down payment than FHA requires and interest rates have shot upward, taking some of the heat off Washington.

▶ Labor Secretary James P. Mitchell whose views on control legislation have been applauded more by union bosses than by management, seems to be inclining, but only slightly, toward a more adequate code of behavior for organized labor. Mitchell indorsed the AFL-CIO proposal for detailed reporting and public disclosure of employee pension and welfare funds. Since American workers have $30 billion equity in these funds, the idea of informing them, and the public, is hardly a revolutionary one. But nothing is said about reports on dues collections and their handling -- in either the Mitchell or the AFL-CIO proposal.

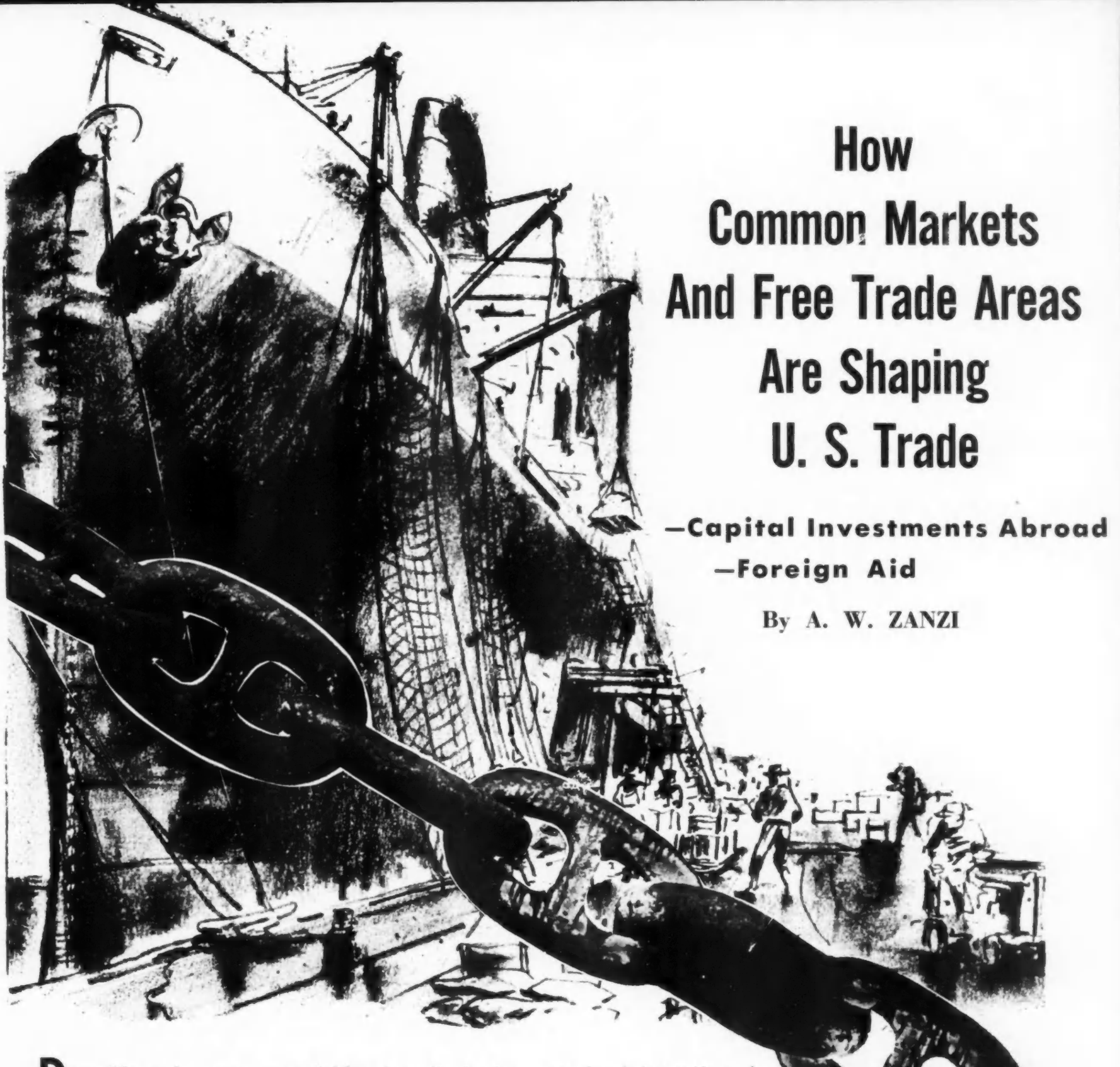
▶ The Secretary probably has been hearing from management. On Nov. 1, he proclaimed for the first time the addition of "new areas" in which Federal legislation may be necessary. He favors a secret ballot election of union officers no less frequently than each four years. "The secret ballot," proclaims the Cabinet member, "is the strongest weapon again tyranny of corrupt officials, whether they be in public or in union office." Whether Government can tell a union, any more than it can tell the American Legion, how to elect its officers may be in question. But Mitchell undoubtedly has a needed reform in view in this particular:

▶ "I believe there must be legislative restrictions placed on what I consider 'blackmail' picketing. While the right of legitimate picketing by unions must be preserved, the use of the picket line to force an employer and his employees to have a union against their will must be curbed. This type of picketing is not part of legitimate trade unionism, but is in fact the tool of the racketeer and hoodlum. It must be stopped." Mitchell will be commended by management for these views; doubly so if, and when, he includes proposals to make unions subject to antitrust law to the same degree that management is, and when he comes out against the secondary boycott.

▶ White House and Pentagon orders for speed-up on material planning and procurement won't stave off a determined drive in Congress for all-out measures. The cry of "too little and too late" will be heard, and it will be difficult to overcome it or, worse yet, ignore it. The announcement of new money and new energy had a tendency to slow public criticism. It hasn't pleased the more vocal protesters in Congress. Freeing $170 million for research and development of weapons holds the promise of some long-range benefits, but its a small fraction of what was being currently spent without producing the demanded results. And $400 million for new procurement (the equivalent of 50 additional heavy planes) isn't likely to register as total guaranty of national security.

▶ Adequacy of defense will be the dominant question in the session opening in January. Already the democrats have adopted the policy of attack. Unless Ike in his version of "fireside chats" this month comes up with something more spectacular than the initial one, the Administration will have a hard time to live down the charge of failing to plan, and of following a policy expressed by Charles E. Wilson in these words: "Let somebody else find out why the grass is green." This light-hearted dismissal of scientific research is understood in Sputnik and those which follow the satellite into outer space.

▶ The battle for civil rights legislation was only started this year. It will be resumed with such heat as to threaten an orderly handling of public business in the new session. Little Rock has been accepted as a symbol and a challenge. Northern republicans under the leadership of Rep. Kenneth B. Keating will move for across-the-board anti-racial legislation, looking to eventual Supreme Court decisions on poll tax, employment opportunity, and many things the southern "anti" bloc regards as matters of personal, social choice.



How Common Markets And Free Trade Areas Are Shaping U. S. Trade

—Capital Investments Abroad —Foreign Aid

By A. W. ZANZI

Don Marquis once waggishly described the "almost Perfect State" as one where all economic problems that cannot be solved are abolished. This creed has apparently spread overseas where it has permeated the thinking of the statesmen and economists who drew up the plans for the European Common Market and the Free Trade Area. For these epic schemes blithely propose to erect an integrated European economy in a few short years in the face of formidably entrenched political and economic forces of such monumental proportions that, if they cannot be abolished, must at least be ignored . . . and stay that way. In the political arena, these infant schemes are tilting with the scaly dragon of a world still enslaved by obsolete 19th century metaphysical myths of inevitable national conflict—and this colors all cooperative thinking. And the economic obstacles too are no less imposing. In fact, the litany of economic impediments, snares and delusions reaches to limbo and back. But the most overwhelming and compelling impression one obtains from this Horatius-at-the-bridge approach to economic integration is that, whatever our misgivings about its wisdom or methods, it must be made to succeed. The gamble must be more than its own reward. And it must pay off before the natural reaction to the facts of life—and the instinctive impulses of self-preservation which inspired the creation of the Common Market, are exhausted by memories of the conflicts of bygone days.

American interest in a Common Market or Free Trade Area in Europe transcends such purely political considerations as the need to bolster Europe's economy as a bulwark to Communism and as a means of enhancing her strength as an ally of the United States. For we cannot be unmindful of the long-term gains which will accrue to the United States as a result of European economic integration. The continued industrialization of Western Europe

will require American capital goods and raw materials. In fact, the gradual elimination of trade barriers within the union will stimulate the modernization of plant and equipment in those member countries that have permitted their industrial apparatus to become obsolescent. For example, many British textile plants will survive the competition of much more modern German and Italian mills only to the extent that they introduce more advanced equipment. This will create new markets for U.S. capital goods. Even more important, the opportunities for profitable direct investment will multiply, while a growing number of U.S. firms will find it expedient and rewarding to engage in licensing agreements with European companies.

It must be recognized, however, that the creation of a Common Market and Free Trade Area will advance the day when Europe can again be an important exporter of capital and technical skills to the underdeveloped countries of the world. But, in consideration of the aid we give, we must develop the kind of plans that will mean a reduction or even a complete abolition of discrimination against dollar goods.

The U.S. in Relation to European Common Market

At the moment, however, while the Common Market and the Free Trade Area will be favorable politically, still we must recognize that only with proper adjustment can we prevent an unfavorable export position for the United States. It is clear that the lowering of the tariffs within the European Economic Union imply a certain amount of discrimination against U. S. goods while only slightly altering the existing restrictions on trade with other countries. In fact, a glance at the accompanying table of representative tariff schedules to be adopted against third countries will show that duties on some major U. S. exports actually will be increased. As the matter now stands, the removal of restrictions on imports of dollar goods will in all likelihood be slowed down rather than accelerated.

But this need not deter our qualified support for European economic integration. For the form which the union will take has not yet hardened into a rigid pattern. As will be seen below, the debate over many key issues still rages. Basic national interests have not yet been reconciled. The institutional and legal structure of integration has not yet taken shape. The relative merits of the Common Market and the Free Trade Area are still being argued. Within this amorphous context the United States can still make a great contribution toward ensuring a sympathetic orientation on the part of Europe in respect to this country's immediate economic interests. Our views can still be expressed through American representatives abroad in their daily contacts with foreign officials and through the existing structure of the Organization for European Economic Cooperation. But, to be effective, we must offer concrete proposals. And these must concentrate on a few essential points.

The depressing effect of European economic integration on American exports can be mitigated or even completely bridged through appropriate devices of commercial policy which will preserve the non-discriminatory features of the General Agreement on Tariffs and Trade and without resorting to exchange manipulations which will violate the principles which guide the activities of the International Monetary Fund. One solution which comes readily to mind is to stimulate a greater flow of American private investment to Europe. By expanding the Continent's productive capacity and incomes, this investment will inspire a larger demand for this country's goods.

A formula suggested involves the establishment of a fund here which would purchase European currencies during the transition period when the impact on U. S. exports could be serious. This scheme is in the tradition of national exchange equalization accounts. It would enable our own products to compete with European goods and offset the effect of higher tariffs by enhancing the purchasing power of European currencies. In order that this policy may be carried out on a continuing basis, the foreign currency proceeds could be loaned to foreign Governments or to private industry abroad. Another alternative set forth suggests that the large German foreign exchange and gold reserves could be put to good use in a foreign exchange equalization account which would be used to rig the value of the Deutschemark in the opposite direction. In this case the account would sell foreign currencies in order to overvalue the Deutschemark and thereby increase German imports. To the extent that this has the effect of appreciating the D-Mark relative to the dollar, it would help offset Germany's unfavorable trade balance with the United States while accomplishing the equally worthwhile purpose of aiding her neighbors.

Unfortunately, these are rather dreary alternatives to the more forthright action which is logically required to maintain our exports to Europe at healthy levels. Some, such as those based on the creation of national exchange equalization accounts, have little more than their deviousness to recommend them. Basically, the purchase of European currencies with U. S. dollars and the process of lending these currencies back to European nations is nothing

Average Hourly Earnings, Obligatory Social Charges and Cost of Days Off with Pay in Manufacturing in Europe*

COUNTRY	Average Hourly Earnings, 1954 In Swiss Francs	Average Hourly Earnings, 1954 Indices U K = 100	Obligatory social charges expressed as percentage of assessable wages at 1 Jan., 1956	Cost to employers of days off with pay as percentage of wages, 1952-53	Wages plus obligatory social charges plus cost of days off with pay. Indices U K = 100
Sweden	3.33	148	2.2	6.0	145
Finland	2.81	125	6.0	4.5	126
Denmark	2.67	118	7.5	6.5	123
Norway	2.58	115	3.7	6.0	115
Switzerland	2.56	114	3.9	6.0	114
U.K.	2.26	100	2.7	6.0	100
Belgium	1.91	85	17.7	11.6	100
France	1.88	83	29.8	7.2	104
Germany	1.74	77	11.7	9.8	85
Ireland	1.53	68	1.7	4.6	66
Netherlands	1.38	61	19.0	7.2	70
Austria	1.30	58	19.0	10.1	68
Italy	1.22	55	53.5	14.2	83

*Social Aspects of European Economics Co-operation, I.L.O., Geneva, 1956.

more than a tortuous way of lending dollars abroad. This process could be accomplished more directly and efficiently through direct private U. S. investments or through low-cost loans by existing international financial institutions. To the extent that they would involve a drain on the U. S. budget, they are merely substitutes for economic aid. Perhaps their only virtue is that, because their immediate implications are lost in the relatively complex mechanics of these schemes, they become more palatable politically.

These alternatives are cited because they illustrate how difficult it is to evolve acceptable substitutes for the more realistic policies which are needed to preserve Europe's economic strength while maintaining our own exports to the Continent. For we can preserve our exports at present levels only if we import more or, failing that, make up for the resulting dollar shortage through expanded investments or foreign aid. Thus, we should recognize that the economic integration of regional groups is the trend of the future. Already there is talk of a Nordic Customs Union involving the Scandinavian nations. Italy is laying plans for a "Latin Union" with Central and South American nations. These schemes have gathered such momentum that they cannot safely be stopped. But it is up to us to exert our influence in behalf of a sound approach to economic integration and to ensure that these plans result in the maximization of trade and the expansion of production without seriously damaging our own trade position. Our attitude should be governed by a recognition of the fact that increases in overall prosperity, living standards and purchasing power are vital to world stability.

The Scope of ECM and the Free Trade Area

Granted these difficulties, what are the more hopeful aspects of ECM and the Free Trade Area? What tangible benefits will they offer the United States? And against the traditional factionalism and political frictions of the Continent, what promise do they hold for security.

The substance of the future is seen in the fact that the Common Market alone will constitute a market of 161 million people producing an annual gross product of $125 billion. If one adds the 78 million people of Austria, Britain, Denmark, Norway, Sweden and Switzerland – with their $80 billion gross product–one is still short of the potential Free Trade Area which could be fashioned by adding such "peripheral" nations as Greece, Finland, Iceland, Portugal, Spain and Turkey. This would yield a market of 316 million people currently producing $228 billion worth of goods. Moreover, the Free Trade Area is expected to have a population of 328 million by 1960, enjoying a 17% increase in output in three years. By 1970 Western Europe may have a total purchasing power equal to that existing in the United States today.

The recent report of the Organization for European Economic Cooperation (OEEC) can be cited as a rough measure of the opportunities which await the American exporter and investor in Europe. Between 1955 and 1960 the OEEC envisages an increase of 22% in the combined imports of Common Market nations from the outside world. Imports or primary products will rise by 19% while manufactured and semi-manufactured articles will show a gain of 40%. Food, beverage and tobacco imports are expected to increase by 11%. In addition, Europe will import 21% more base metals, paper and paperboard by 1960.

Present Benelux Duties and Probable Common Market Tarics for Representative Goods

	Benelux Duty	Common Market Tariff
Agricultural machines	6%	9% to 14%
Office calculators	8%	9% to 14%
Carbon black	0	5%
Cardboard	15%	17% to 18%
Auto and truck chassis	24%	32¼%
Cotton yarns	4%	10%
Detergents	15%	16% to 20%
Film apparatus	15%	15% to 17%
Corn, barley, rye	0	9% to 16%
Motor vehicles	24%	27% to 29%
Optical glass	0	14¼%
Oranges	13%	15% to 20%
Refrigerators	12%	14%
Textile machinery	6%	10% to 13%
Wheat	0	20%

A Foot in the Door in Our Markets

The achievement of these import goals will require a substantial expansion of European exports. Europe's shipments to the United States alone must increase by at least 40% if payments on current account to the dollar area are to be in approximate balance in 1960. Moreover, if surplus is to be earned in order to acquire added reserves or investments in the dollar area, the required expansion will be correspondingly greater. This is manifestly impossible for it would require a tremendous growth in this country's national income and purchasing power to absorb a volume of imports of that magnitude even if our tariff policies permitted it. For this reason the members of the European Economic Community will seek to earn necessary gold and dollars from transactions with third market areas. Since Latin America is the principal trade partner of the United States and the most likely source of dollars outside this country, the Common Market and Free Trade Area nations will undoubtedly step up their exports to the Latin Republics. It is in this area therefore, in what has almost been a private U. S. business preserve, that this country will experience the most vigorous manifestations of the competitive challenge of the European Economic Community. But this triangular flow of trade could function smoothly only if this country were to maintain, either by design or by default, a deficit in its payments position with Latin America. This contains the further implication that, if this is indeed to be the case, the flow of private U. S. investment capital to the Latin nations must rise substantially above present levels. One commendable feature of this scheme is that it will generate an even greater movement of U. S. investment capital and thereby accelerate the economic expansion of the Latin Republics. This certainly cannot be faulted. And it would seem to be a preferable alternative to foreign aid grants.

Misgivings Growing in Europe

But to sketch the rough outlines of some of the more salient consequences (*Please turn to page* 306)

The New Interest in

GOLD STOCKS

—In U.S.A.—Canada—South Africa

By Caleb Fay

International financial crises invariably turn people's thought to gold, and the warm glow of security it affords when currencies are shakey. In recent years they have also placed a speculative "bug" in the ears of many investors seeking to cash in on the possibility that the price of gold—now fixed by law at the same level that was set 24 years ago—may be increased by government edict.

Actually, the chances for an increase in the immediate future seem slim, but there are several factors bearing directly or indirectly on U. S. Government gold that make a hike above the present $35 per ounce a possibility—if not a probability.

One of these factors is renewed evidence of hoarding in France, a situation reflected in the rising value of gold in the free market of Paris. In Germany another form of hoarding is being encouraged by the Bonn government, which recently announced that gold bars of 10 and 20 grams are going to be sold freely at the rate of $41.50 an ounce as an anti-inflationary measure.

But most importantly, foreign claims on U. S. gold are uncomfortably large, and the withdrawal of earmarked gold could bring considerable pressure for a mark up in the price. The magnitude of this potential drain on our gold stocks is much greater than most people would imagine – amounting to $13.2 billion against total stocks of $22.7 billion.

Working against an increase however, is the government's consistently rigid stand against such a move, and the fact that in a recession gold production will increase of its own accord. For the same factors that work against this industry in inflationary times—inability to advance the price to compensate for higher costs, or to take advantage of urgent consumer demands—redound to its advantage in deflationary periods. If the price of the product cannot be raised when costs are on the upgrade, neither will it fall when the tide of other commodity prices turns the other way. Knowing their market is secure, gold producers can, and will, turn out as much gold as lower costs will allow.

Past history bears out this picture. In deflationary periods the costs of supplies and equipment lessens as demand from other consumers falls off. And although wages may not be cut—and this is quite important—labor efficiency is increased measurably by the knowledge that other workers are

looking for jobs in the gold fields. Absenteeism vanishes as a problem. Output per man hour goes up, and cost per ounce of gold goes down. Thus even during the great 1929-32 depression gold mines operated at capacity, although they obtained no more than $20.67 per ounce for their production.

Against this backdrop, an increase in the gold price must be considered remote, but in view of the growing interest in the valuable metal, the following discussion of the industry and its principal members should give the reader insight into its problems, and its potential.

Gold Production in the U. S.

Gold production in the United States has declined since 1950 when it totalled 2,394,231 ounces. Last year the output came to 1,837, 961 ounces, a decline of 23 per cent. Peak production was in 1940, with 4,703,000 ounces. During the same period Canadian gold output declined less than 1 percent and was reported 4,395,270 ounces in 1956. However, this represented a fall of 149,000 ounces from peak production in 1955.

Further analysis of domestic gold production indicates that during the last seven years the straight-gold producers have waged a losing fight against high costs and the fixed price of gold. Production from gold placers and gold ores which contain no saleable by-product metals—generally termed straight gold producers—has declined more rapidly than the 23 percent noted above. In 1950 these two sources of gold accounted for 68 percent of the total national production with by-product gold obtained from base metal ores, chiefly copper, making up the balance of 32 per cent. But last year straight gold production made up only 58 per cent of the national output. This should need little explanation, as the straight gold producers have been caught between the upper and nether millstones of roughly doubled cost of supplies and labor on the one hand, and the inflexible price of the yellow metal on the other. In some gold producing countries an endeavor has been made to compensate for this in partial degree by granting government subsidies to gold mines. Others have accomplished the same end by permitting sales of bullion in the free market if a premium existed, or by devaluation of currency, as occurred in the sterling bloc in 1949 when the value of the pound was cut to $2.80. But generally it has been a losing battle and especially so in the United States where Washington has turned a deaf ear to relief of the gold mines.

The really amazing thing is that domestic gold production has not registered a greater decline. Two factors must be credited. First, about one third the domestic gold output is derived from the production of the Homestake mine, a relatively high grade producer, where per-ounce costs are sufficiently low to permit profitable operation on a large scale.

The second factor is the large quantity of by-product gold obtained from operations of some of the major copper mines. Until recently these have enjoyed lush prices for their products and increased output accordingly. As their production rose their gold output increased in ratio without corresponding cost. For example, Kennecott Copper is the largest domestic gold producer with an output of over 400,000 ounces. Other sizable production comes from Anaconda, Phelps Dodge, and Magma. With enforced cutbacks of copper now in prospect because of low prices it appears probable that this source of gold will loom less important until copper prices recover.

Canadian Gold Situation

The situation is somewhat different in Canada where the amount of gold recovered from straight gold ores is much higher than in the United States and where there still remains dozens of relatively small gold mines plus a few major producers that are courageously carrying on production, if not at much profit. While they have benefited from a government subsidy to high cost producers since 1948, they have been hurt by being obliged to accept about $33.50 per ounce for their gold instead of $35 because of the premium on the Canadian dollar. This is calculated to have cost them nearly $4 million in the first seven months of this year. In 1956 the value of the Canadian gold output at the statutory price was about $154 million from 47 lode mines, a sad decline from 144 mines in 1940. By-product gold accounted for only 13 percent of this total. In spite of this long array of unfavorable operating conditions, however, investor sentiment may be veering again to gold. In recent weeks the Toronto market has taken a terrible drubbing in the copper, zinc and uranium issues, but the gold stocks have weathered the storm remarkably well. Some golds have been advanced against a general decline. The adverse factors that have confronted base metal producers, notably lower metal markets and sharply lessened demand have left the gold mines unscathed. Recently because of the lower premium for the Canadian dollar in terms of U. S. currency the gold miners have been receiving more for their bullion and it appears likely that this will continue. It could bring them about $1.75 more per ounce if the Canadian dollar dropped to par with our own. Consequently in contrast with the plight of most base metal miners the Canadian gold producers can expect a higher price for their product in the second half of this year than six months ago with attendant increase in profit margin. This of course is in addition to the reduction in costs of supplies that can be normally expected in any period of industrial recession. It would be passing strange if the Canadian speculator after recovering from his wounds in the late market debacle would not seize on these possibilities with gusto for another whirl at his old time favorites, the gold stocks.

Gold Producers Now Have "Other" Interests

Since 1950 the major gold mining companies of U. S. and Canada with the notable exception of Kerr Addison have embarked in other fields to diversify their operations. Homestake took the plunge into uranium mining several years ago and apparently pleased with its success is about to engage on a major scale in developing several larger properties in New Mexico. Natomas is now in the shipping business thru acquisition of stock in the American President Lines. In Canada, Dome continues oil exploration thru a subsidiary, and Hollinger's profits from its iron interests in the Quebec Labrador field will undoubtedly surpass the value of its gold

Statistical Data on Large North American Gold Producers

	Total Revenue 1956 (Thousands)	Approx. Revenue From Gold (Thousands)	Percent of Total Revenue From Gold	Costs Per Ton	Source of Other Income	Net Per Share 1955	Net Per Share 1956	Net Per Share 9 Months 1957	Indicated Dividend 1957	Recent Price	Div. Yield	Price Range 1956-57
United States												
Homestake Mining	$21,498	$19,354	91%	$ —	Uranium	$ .97	$1.23	$1.13[1]	$2.00	33	6.0%	40½-31¼
Natomas Co.	2,821	1,707	60	7.82[4]	Investments, Land deals	.09	.31	.07[1]	—	5½	—	8¼- 4⅝
U.S. Smelt. Ref. & Mining	46,000	6,500	14	—	Custom smelting, lead, zinc mining, oil interests	5.41	4.50	.76[1]	[2] .50[3]	30	—	71¾-28
Canada												
Dome Mines	7,664	5,876	76	7.42	Investments	.93	1.00	.64	.75	11½	6.5	16⅛-11⅜
Hollinger Consol.	11,605	9,977	84	5.38	Iron interests	.35	.43	.22[1]	.50	21	2.3	37¾-18
Kerr-Addison Gold Mines	16,499	16,277	98	—	Investments	.95	1.05	.74	.80	14¾	5.4	22 -13
Lake Shore Mines	3,032	2,663	89	13.71	Cost-aid subsidy	.22	.20	.03[1]	—	4	—	8⅜- 3
McIntyre Porcupine Mines	10,422	7,432	71	7.53	Investments	3.79	3.79	1.58[1]	3.00	70	4.2	122½-69

[1]—6 months. [2]—Plus stock. [3]—Directors 9/11/57 took no div. action. [4]—Total cost per yard.

output at no distant date. McIntyre has expanded its activities thru operating control of Ventures but still confines iself to the mining field.

An investor searching for a straight gold producer in U. S. or Canada has his field severely limited. Homestake comes the nearest to a logical choice in the U. S. and Kerr Addison, and Dome, in Canada.

These are the major ones. There are dozens of other smaller gold producers across the border that are publicly owned which could be expected to improve under a more favorable climate fo rgold, but each one demands a thorough study of ore reserves, costs, grade of ore and calibre of management before giving endorsement. In particular, the Red Lake gold mines, which include Campbell Red Lake (a subsidiary of Dome Mines) Cochenour Willans, Madsden Red Lake and New Dickinson have made a good record in trying times.

Company Comments

The accompanying table portrays the importance of gold output to the leading producers relative to their total income. Figures are based on their 1956 returns and it is unlikely the ratios will hold true in the years ahead, particularly for Hollinger and McIntyre. Brief comments follow detailing the activities of several important producers.

The **Homestake** mine at Lead, South Dakota is one of the world's major gold mining properties. Since its inception, in a period of 79 years, the company has paid dividends totalling over $196 million. Payments have been continuous except during World War II, when the operations were ordered suspended by the War Production Board. Beginning in 1953, dividends of $2 per share have been paid annually on the 2,009,280 shares of common stock outstanding. Historically the company has derived substantially all its revenues from gold mining, but within the last two years, uranium production has accounted for about 20% of net income from wholly owned subsidiaries in Utah. More recently the company has acquired interests in other uranium properties, notably in the Ambrosia Lake area of New Mexico, on several of which mines have been developed with good profit potential. Two mills are being built to treat uranium ores from these mines, which will be operated under the sole management of the company as the general partner. These are known as the Homestake-Sapin Partners and the Homestake-New Mexican Partners. It is estimated that approximately $25 million will be required for development of these properties. For this purpose Homestake has recently sold $12 million of debentures with the balance to be supplied from the company's general funds.

Profitable as these uranium projects may prove to be for Homestake over the future, and intriguing as they may be in adding speculative interest to the shares, the investor concerned with the position of gold producers in a period of declining industrial activity, will give major attention to Homestake as a gold mine. Considered from this angle, the company takes undisputed first place among U. S. gold producers. Its gold ore for decades has been consistently far above the average mined by other mines, averaging nearly $12 per ton. Because of excellent operating management and good labor relations, costs have been held to approximately $8.50 per ton and in consequence, the average cost per ounce of gold has been less than $26, before depreciation and depletion. The profit margin therefore has remained satisfactory, without benefit of government subsidy. As of January 1, 1957 the company reported over 15 years ore reserves at the current annual production rate. This is somewhat less than reported a year earlier but may be attributed to the need to wait for more complete results of development in the lowest level. There is little reason to fear that this immense orebody may have finally bottomed out, but after 79 years of production, the invitable end is nearer. Conceivably this may have prompted the management to use the company's imposing cash resources to enter uranium mining in a substantial way.

In June, 1951, Homestake along with other U. S. gold mines instituted an action in the U. S. Court of Claims against the Government, seeking compensation for closing of its mine operations for $2\frac{1}{2}$ years by reason of the War Production Board Order issued in 1942. In February, 1956, this Court held in favor of the company for an amount believed to approximate $10 million in damages. The Supreme Court granted a review of the case which will probably be argued during the October, 1957 term. If the decision of the Court of Claims is upheld it could mean about $5 per share for Homestake stock. The ultimate outcome (*Please turn to page* 298)

Study of

GROWTH UTILITIES

For Today and Tomorrow

By OWEN ELY

During the postwar decade the electric power and light industry has been expanding very rapidly, and it is still planning for continued substantial growth. As of July 1, 1957 the industry had about 127 million kw generating capacity (including public power agencies) and had placed orders or made plans for installation of nearly 53 million kw additional capacity, principally in the years 1957-60. Thus the industry has confidence that its historic record of "doubling every decade" will continue.

During 1957 utility construction has continued at a high level despite increasing costs of construction and high money rates. In the first nine months of the year electric utilities raised about $2 billion for construction expenditures, compared with a little over $1 billion in the same period of 1956. It is possible that some companies may now be lowering their sights somewhat, but the latest available figures for the industry do not indicate much, if any, serious slackening in the building program for 1958. One difficuty is that air-conditioning has now become an important part of the summer load, and at least two large utilities last summer found themselves in trouble during a sudden heat wave when air-conditioning demands jumped rapidly – hence some companies may wish to increase their margin of reserve capacity somewhat, even though they may have adequate reserves by previous standards.

Thus far not much has been heard regarding cutbacks in utility construction next year. However, one utility company which was particularly hard hit by high money rates–Puget Sound Power & Light, and had to pay over 6% for first mortgage money last June–is now reviewing its construction program for future years to eliminate any unnecessary items. Other companies can (if desired) easily "hold back" or "stretch out" their programs somewhat, due to flexible clauses in their contracts for new generating units, and the short-term nature of some other

construction work. However, it is doubtful whether there will be very much of this slackening unless business conditions get worse. While railway carloadings have dropped sharply in recent weeks electric power output continues to show fair sized gains over last year. *As regards the high cost of money, recent rate decisions have allowed some utilities a higher rate of return than the traditional 6%, in order to compensate for higher costs of obtaining funds.* Dividend increases are continuing to appear, indicating confidence in the maintenance of earnings.

Growth Utilities vs. Growth Industrials

During the postwar period, and particularly in the past few years, a great deal of interest has developed in the so-called growth utilities, this group being the counterpart of the dynamic "blue chip" industrials. Both groups sell at higher price earnings multiples than the shares of similar companies whose earnings have been stable or erratic. In other words, institutional and other large investors are willing to pay more for these stocks (in terms of price-earnings multiples) because of the steady gains in earnings, dividends and market price. However, if one of the growth stocks has a run of bad luck and the upward trend of earnings is definitely interrupted, the resulting decline reflects not merely the decrease in the earnings but also a lowering of the price-earnings ratio due to a less favorable appraisal of future growth prospects.

Industrial "growth" stocks include both old-line issues with well-demonstrated earnings growth, such as IBM, and newer issues which due to the turn of events acquire a sudden market following because of anticipated rapid gains in earnings. In the utility field, however, there is less of this shifting about. Due to certain factors such as favorable regulation (or absence of regulation), cheap fuel, and rapid increase in population or in local industry, certain utilities are regarded by analysts and investors as "growth" issues, and while the list may change from time to time, there is more consistency in the utility "growth" classification than with industrial stocks. It should be pointed out, however, that utility companies also mature, and no matter how favorable the regulatory picture, growth can slow down as the industrial and population structure of the area served undergoes gradual—and sometimes sudden—change.

A few months ago leading growth utilities were selling at multiples of 18-21 times earnings, but due to the recent market decline they can now be purchased for about 16-17 times earnings. It is worthwhile, therefore to use the current period of "waiting for market clarification", to evaluate a diversified list of these stocks for possible commitments later on.

Texas Growth Utilities

In the accompanying table these growth electric utilities have been grouped as Texas utilities, Florida utilities, other U.S., and Canadian companies. Most of the utilities in Texas have been favorably situated for a long time. The use of cheap gas as boiler fuel has permitted very low production costs of electricity as compared with most other areas where coal or oil are consumed. It is true that gas has been rising in price—from about 6¢ per mcf a few years to 15-20¢ currently—but the Texas companies have been protected to large extent by long-term purchase contracts. As new generating plants are built new contracts at higher prices become necessary, but the increased efficiency of the new plants offsets this in large degree. Moreover, many rate schedules contain fuel adjustment clauses which pass along to con-

Growth Utilities

	Earnings Per Share 1952	1953	1954	1955	1956	9 Months 1957	Increase 1956 over 1952	Recent Price	Price-Earnings Ratio	Indicated 1957 Div.	Div. Yield	Price Range 1956-1957
Texas Utilities												
Central & South West Corp.	$1.60	$1.72	$2.00	$2.04	$2.32	$1.82	45%	38	17	$1.60	4.2%	43⅛-33
Community Public Service	1.48	1.60	1.69	1.71	1.82	1.86[6]	23	24	13	1.30	5.4	27¼-22
Gulf States Utilities	1.45	1.87	1.88	2.16	2.21	2.31[1]	53	35	15	1.60	4.5	42¾-32⅝
Houston Lighting	1.78	1.99	2.30	2.52	2.80	2.06	57	50	18	1.60	3.2	60⅞-41¼
Southwestern Public Service	1.40	1.48	1.46	1.54	1.64	1.77[2]	17	30	17	1.48	4.9	33⅛-24½
Texas Utilities	1.56	1.67	1.93	2.06	2.35	2.50[3]	51	42	16	1.44	3.4	49½-34⅝
Florida Utilities												
Florida Power Corp.	1.81	1.89	2.22	2.30	2.86	2.17	58	50	17	1.80	3.6	59⅞-41¾
Florida Power & Light	1.42	1.54	1.75	2.05	2.59	2.31	83	49	16	1.28	2.6	59¾-36¾
Tampa Electric	1.08	1.18	1.37	1.37	1.66	1.80[1]	54	29	17	1.20	4.1	35 -24½
Others U. S.												
American Gas & Electric	1.55	1.61	1.68	1.95	2.03	2.14[3]	31	34	15	1.60[4]	4.7	43½-29⅞
Atlantic City Electric	1.15	1.30	1.41	1.54	1.65	1.27	44	29	16	1.30	4.4	30½-26⅞
Delaware Power & Light	1.75	1.84	2.08	2.32	2.50	2.09	43	45	16	1.80	4.0	51½-36⅞
Southern Company	1.18	1.24	1.29	1.35	1.54	1.58[1]	31	22	14	1.10	5.0	25¼-19¼
Virginia Electric & Power	.87	.89	1.10	1.27	1.39	1.14	60	22	15	1.00	4.5	28 -19⅛
Canadian												
British Columbia Power	1.34	1.47	1.62	2.05	2.34	—	75	40	15[7]	1.40	3.8	55½-34⅛
Shawinigan Water & Power	.64	.75	.95	1.16	1.42	1.06[5]	122	25	15[7]	.68[5]	2.8	33⅝-21¾

1—12 months Sept. 30.
2—12 months July 31.
3—12 months August 31.
4—Plus stock.
5—After 3 for 1 stock split Oct. 1957.
6—12 months ended June 30.
7—Based on 1956 earnings.

sumers any higher cost of fuel. Hence thus far the rising cost of gas has apparently had little retarding effect on the upward trend of share earnings.

Utilities in Texas have been favored by the very flexible regulation by municipal authorities—there is no state commission having jurisdiction over electric companies. For the most part the companies have been able to obtain franchise renewals without trouble, and where rate increases have been needed municipalities have generally agreed without raising difficulties. A state law sets up 8% as the equivalent of the 6% "fair rate of return" elsewhere, but some utilities have earned well over 8% in some years.

Texas utilities have also benefited greatly by the continuing discoveries of oil and gas, and the rapid influx of new industry into the state, supplementing the old cattle-cotton economy. The financial prosperity of the state, built largely on tax-free earnings from oil wells, has not only favored the rapid growth of the utility companies but has provided a favorable atmosphere for them with no public quibbling or criticism over rising earnings.

Texas Utilities Company has been one of the most consistent growth utilities in recent years and while the company will not forecast share earnings, President MacGregor recently announced that the company planned to increase its generating capacity about 50% between now and 1960, assumed stable economic conditions. While the company may sell common stock next year this will probably not exceed 4% of the outstanding shares so that dilution of earnings can be negligible.

Houston Lighting has also enjoyed consistent gains in share earnings, but this year issued 10% more shares so that earnings for the calendar year are expected to remain around $2.80, the same as last year. However, a satisfactory increase in share earnings is expected in 1958 and 1959. Here again the company is planning a very heavy expansion program—$272 million expenditures for the period 1955-1959 or more than double the amount estimated about two years ago, depending of course on the outlook.

Central & South West Corp. has also enjoyed a good record but recent share earnings have been diluted by the equity offering of early this year. Earnings for the year are expected to show a moderate gain, however—about $2.40 vs. $2.32.

Southwestern Public Service started as a rapid growth company in the 1940s. Earnings dropped in 1954 and it took two years to recover to the 1953 level of $1.64. But now the company seems to be getting back into its stride and with nearly 40% excess capacity earnings are expected to continue on the upgrade again depending on the business outlook which applies to all companies.

Gulf States Utilities has been somewhat handicapped by the fact that roughly half its operations are in Louisiana, where local politics may play a role and regulation has been rather unfavorable in recent years. However, with the other half of its business in Texas the company has held its own fairly well.

Community Public Service is a smaller Texas utilities which has enjoyed good gains in earnings, is available at a lower multiple of earnings, and affords a better yield than other Texas utilities. The company buys almost all its power requirements, which may explain why it is not classed with the larger growth utilities.

Florida Utilities Are Well Situated

The leading Florida utilities – Florida Power & Light, Florida Power Corp., and Tampa Electric – have been equally popular with investors as growth stocks. Florida has enjoyed practically uninterrupted growth in population since the early 1930's and utility output has increased correspondingly. In recent years light industry has been coming into the state, and the tourist business on the east coast has expanded rapidly. In the pre-war period the growth factor was offset by adverse regulation and other factors. The present utilities emerged from holding companies in the 1940's and in the post-war period have become increasingly popular.

Regulation of utilities in Florida was formerly in the hands of local boards and municipalities, and the Pinellas County Board was particularly anti-utility. However, a State Commission was set up a few years ago and has maintained a friendly and cooperative attitude toward utilities under its jurisdiction, with a resulting "favorable regulatory climate" which has become well-known to investors. While the cost of oil as fuel might have become a problem from the earnings angle, the utilities have been allowed to use fuel adjustment clauses in their rate schedules—a different situation than in California where the Commission has not favored this procedure.

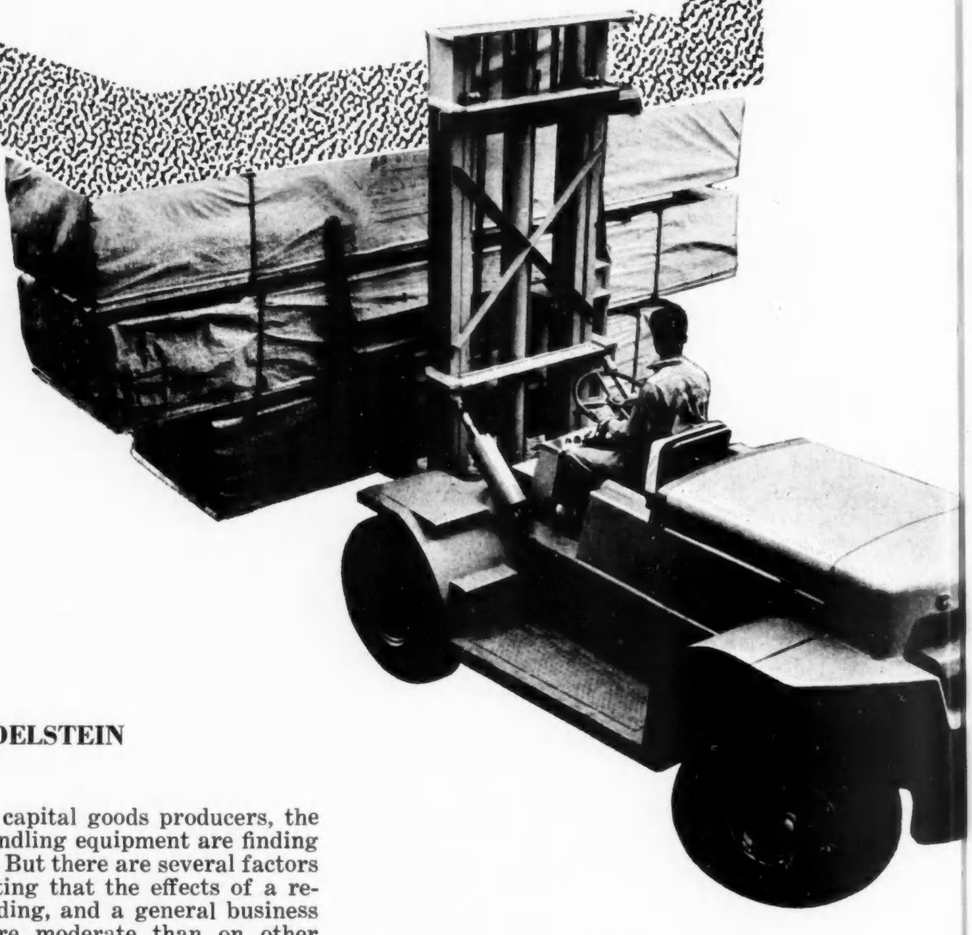
This summer, however, the Florida Commission suddenly announced that **Florida Power & Light** was earning an excessive return on its rate base and would have to take a rate reduction. (Florida Power Corp. and Tampa Electric were not affected). Florida Power & Light did not object too strongly to the rate cut but did not like the low rate base figure set by the staff of the Commission. After a few weeks of negotiation, without prolonged hearings, the company accepted a rate cut of about $4 million or approximately 35¢ per share, effective September 1. Pro forma earnings after the rate cut would provide a return of nearly 7% on the rate base as fixed by the Commission, or about 6½% on the larger rate base which the company considered justified.

The Chairman of the Commission, in a subsequent talk before the New York Society of Security Analysts, indicated that the future allowable rate of return will be somewhat flexible. If the earned return increases or decreases by one-half per cent from the current 7 per cent in future, the Commission will probably consult with the company regarding measures to be taken. The company evidently considered this a satisfactory arrangement, and the management has indicated that they remain on excellent terms with the Commission.

Despite the rate cut Chairman MacGregor Smith of Florida Power & Light has estimated that earnings for the calendar year 1957 may approximate $3.10-$3.16 as compared with $2.59 in 1956 and $2.80 for the twelve months ended June 30. However, this forecast perhaps did not take into account the dilution which will result from the sale of 300,000 shares of common stock scheduled for November 20. This would reduce the share earnings about 15¢, reducing the estimate to around $3, unless the company decides to use the device of "average shares" to minimize the effect, as is done by some companies.

Florida Power & Light is continuing to expand very rapidly and is one of (*Please turn to page* 300)

MATERIALS HANDLING



Specialists In Cost Cutting

By HAROLD M. EDELSTEIN

Along with other capital goods producers, the makers of materials handling equipment are finding their boom topping out. But there are several factors in their outlook indicating that the effects of a reduction in capital spending, and a general business downturn, will be more moderate than on other equipment manufacturers.

The first and most important of these is that materials handling systems afford many companies an excellent opportunity for reducing operating costs—and although this is always an important consideration, it is especially so now when so many corporations are having trouble passing cost increases on to their customers in the form of higher prices. Just a glance at third quarter earnings reports (and for that matter first and second quarter results as well) indicated how widespread the profit margin squeeze has become—and with the cost of handling materials estimated at anywhere from 25% to 60% of total manufacturing costs, this is an area that cost-conscious managements are going to scrutinize carefully.

Translating materials handling into labor terms, as much as 50% of total labor costs in many industries is incurred in just moving raw-materials and finished products from one place to another within the physical confines of the factory. Is it any wonder then, that the post-war era, with its steadily rising wage rates has witnessed a virtual revolution in materials handling, raising it from a hit-or-miss proposition before the war, to a carefully controlled science today?

To the layman the best visual evidence of the radical change it has brought to manufacturing processes is the long, low, one-story factory which now dots the suburban landscape clear across the nation. The reason for this change in industrial architecture is not difficult to discern once we realize that new materials handling techniques are most economical if the work can be made to flow in a continuous

stream through the production process, instead of being shifted from floor to floor as was formerly done in the old-style, multi-story plant. The continuous flow understandably reduces the amount of handling by human hands—and hence the labor cost.

The architecture of these new plants, incidentally, points to another important reason for the assumption that materials handling equipment makers will fare reasonably well during a moderate recession. Since the new factory has been designed to make automatic handling machinery an integral part of its function, breakdowns anywhere along the line can interrupt the entire operation of the plant. Therefore, equipment must be constantly maintained—or frequently replaced—if efficient production is to be sustained. The equipment makers are thus assured of a reasonable level of replacement business during most periods.

Also working to the advantage of the equipment makers is the long-range labor shortage which will tend to keep wage rates high, even if other commodity prices give ground in a recession. For the rigid wage structure will spur industry to concentrate its capital expenditures on modernization and internal efficiency, rather than expansion of physical capacity. Automation—that catch-all word—will be emphasized to the advantage of the manufacturers of the "muscles" of automated systems.

Some idea of what this means to the industry can be gathered from projected capital spending figures for 1958. It is well advertised that total outlays have turned downward from the $37 billion per year peak, but authoritative estimates place the overall drop in 1958 at only 7%. Thus total capital spending will be almost as high as in 1956 and a full 20% ahead of the 1955 rate. For the economy as a whole, *any* retardation in the spending rate eliminates its effect as a stimulant, but for materials handling makers, the high level that will still prevail may assure substantial spending for their products as manufacturers strive to lower costs.

Materials Handling In Non-Manufacturing Industries

Another factor of importance is that capital spending in many non-manufacturing industries is still on the upgrade, and many of these are turning increasingly to materials handling techniques. Cost reduction is obviously not solely a problem for manufacturers, and materials handling systems have come into wide usage across a broad scale ranging from stevedoring to the neighborhood supermarket. The handling of goods on both a retail and wholesale level, in fact, has undergone a radical change in recent years, thanks to new concepts in stacking and moving merchandise.

In the newer supermarkets today, canned goods are lowered from the warehouse delivery truck onto automatic conveyors that stack and store the packages in handy units for immediate call in the retail store. When goods are to moved to the sales floor, roller-type conveyors move the packages to small elevators, raise them to the desired level and then stack the cans, boxes, etc., in handy "take-it-yourself" racks.

But in warehousing, the advances have gone much further. As an example of what this has meant to distribution costs, take a look at a warehouse operated by a winery on the west coast. There four men perform the entire warehousing operation each afternoon, handling more goods in the process, and at a lower cost than was formerly the case when two

Principal Materials Handling Companies

	1956		1st 9 Months 1956		1st 9 Months 1957		Indicated			
	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Div. Rate 1957	Recent Price	Price Range 1956-57	Div. Yield
American Chain & Cable	$ 117.6	$6.80	$ 861	$5.22	$ 87.3	$4.79	$2.50	42	64¼-38½	5.9%
Chain Belt	56.7[1]	6.73[1]	42.4[2]	4.62[2]	45.1[2]	4.64[2]	3.25	52	75½-45½	6.2
Clark Equipment	145.3	4.11	111.6	2.85	109.0	2.77	2.25	39	75½-38	5.7
Harnischfeger Corp.	81.1[1]	4.16[1]	37.3[3]	1.68[3]	42.4[3]	2.38[3]	1.60	27	43⅛-24¾	5.9
Hewitt-Robins Inc.	55.4	3.35	38.9	1.91	41.4	2.09	2.00	29	46½-26⅛	6.8
Joy Manufacturing	81.9[4]	3.18[4]	121.1[5]	6.10[5]	130.5[5]	6.30[5]	3.00	45	76¾-35⅛	6.6
Link Belt	163.9	5.95	122.3	4.39	127.5	4.21	3.25	53	76½-47½	6.1
Manning, Maxwell & Moore	45.8	3.17	32.5	2.16	42.6	2.94	1.20	22	37⅝-16¾	5.4
Massey-Harris-Ferguson	372.1[1]	.22[1]	n.a.	n.a.	n.a.	n.a.	.40	6	9½- 5⅝	6.6
Yale & Towne	122.5	2.79	90.5	2.09	95.2	1.69	1.50	23½	34⅝-23⅛	6.3

9 Companies With Important Stake in Materials Handling

	1956 Net Sales (mil.)	1956 Net Per Share	1st 9 Months 1956 Net Sales (mil.)	1st 9 Months 1956 Net Per Share	1st 9 Months 1957 Net Sales (mil.)	1st 9 Months 1957 Net Per Share	Indicated Div. Rate 1957	Recent Price	Price Range 1956-57	Div. Yield
Allis-Chalmers	$ 547.4	$2.42	$ 432.2	$1.87	$ 419.3	$1.76	$2.00	25	37⅝-24⅞	8.0%
American Metal Products	65.1	3.01	47.6	1.97	56.4	2.94	1.50	21½	29 -21⅛	6.9
Borg-Warner	598.6	4.01	443.8	2.48	459.3	2.49	2.40	34	50⅞-32	7.0
Food Machinery & Chem.	293.7	4.72	80.8[9]	2.76[9]	83.0[9]	2.65[9]	2.00	45	77 -42¾	4.4
Goodrich (B. F.)	724.1	4.90	538.6	3.44	560.8	3.38	2.20	60	89¼-60	3.6
Goodyear Tire & R.	1,358.7	6.03	1,010.5	4.47	1,082.4	4.98	2.40[6]	80	95¼-60	3.0
Ingersoll Rand	189.1	5.96	n.a.	2.71[9]	n.a.	3.01[9]	4.00	66	88½-59	6.0
International Harvester	1,252.0[1]	3.16[1]	609.3[3]	1.56[3]	553.1[3]	1.20[3]	2.00	30	41⅝-29⅝	6.0
Smith (A. O.) Corp.	237.1[7]	3.01[7]	238.2[8]	3.55[8]	267.3[8]	4.85[8]	1.45[6]	31	44¾-25¼	4.6

n.a.—Not available.
1—Years ended Oct. 31
2—9 months ended July 31.
3—6 months ended April 30.
4—Year ended Sept. 30, 1955.
5—Years ended Sept. 30, 1956 & 1957.
6—Plus stock.
7—Year ended July 31, 1955.
8—Years ended July 31, 1956 & 1957.
9—6 months ended June 30.

full shifts of laborers were used. The warehouse is almost completely automatic, and except for human supervision every operation is directed from a control room "brain center". The physical labor is done through a bank of over 60 gravity roller storage conveyors which feed merchandise onto electronically controlled belt carriers. Electric-eye counters keep tabs on the merchandise, memorize its type and location, and can, at the flick of a switch send any number of cases on the way to the retailer. All in all over 1500 cases of wine per hour can be sorted, stored and catalogued by the system.

With such a broad market potential it is not surprising that a number of major companies in other industries have diversified into the field. The Buda Division of Allis-Chalmers and the Baker-Raulang Division of Otis Elevator give the two parents an important stake in the fork-lift truck field. Goodyear, Goodrich and U.S. Rubber are important manufacturers of conveyor systems, and Food Machinery & Chemical is a major producer of belt and roller conveyors. Materials handling is also an important source of revenue to Borg-Warner, both through the manufacture of equipment and specialized transmission systems used in various lines of industrial trucks.

Principal Materials Handling Companies

Of the companies engaged almost solely in the production of handling equipment, Clark Equipment and Yale & Towne probably produce the broadest product lines, but others, such as Link-Belt (the oldest and best established in the industry) have important diversification in other types of machinery and special products.

As a group the companies have been particularly successful in recent years, and 1956 was a record year. The pace continued through the first half of 1956, but some chinks in the armour of the more vulnerable producers have now begun to show up. Most of their difficulties stem from their own cost problems, but there has also been a drop in new orders for some producers. All however, are experiencing some price resistance. Nevertheless, most backlogs are in good shape assuring high earnings for all 1957, and a good part of 1958. The outlook and performance records of the most important companies are discussed below.

Company Comments

Among the makers of conveyors and chain-transmission equipment, Link Belt and Chain Belt are old-line, well established companies with long records of consecutive dividend payments and sound finances.

Link Belt's record of unbroken dividends stretches way back to 1875, and except for the debacle year 1932, every year in the last 50 has been a profitable one. Prior to World War II operations were subject to wide cyclical swings, but able management and conservative financial policies kept the company on even keel. Since the war, however, the powerful stimulus of new markets for materials handling equipment has introduced a better degree of stability into operations, without changing the company's sound approach to traditional financial practices.

Today, over 50% of Link's business is accounted for by materials handling machinery, while transmisison systems, power shovels and engineering services provide the balance of revenues. The effect of the upsurge in material handling since the war raised annual revenues to $164 million in 1956 from $61.6 million in 1946. In the same period earnings per share have climbed from $2.75 per share to $5.95; dividends to $3.15 from $1.00; and book value has more than doubled. What is most impressive about the company's record is that there has been no outside financing since the war, yet net working capital has jumped from $21 million in 1946 to almost $56 million at the end of 1956. Cash items followed a similar course, amounting to $7.6 million in 1946, and $16.5 million in 1956.

Through the first half of 1957 sales and earnings continued to gain over 1956, but by the third quarter increased costs, largely resulting from expansion of the company's own facilities reduced results for the nine months moderately, to $4.21 per share from $4.39 last year. Nevertheless, the company's backlog of orders continues to exceed 1956 levels, despite consistently higher shipments this year, indicating that earnings declines, if any will be small this year, and not particularly significant in the early part of 1958. For the balance of 1958, capital spending levels must be carefully watched.

Chain Belt realizes about 25% of its income from conveyors and over 50% from transmisison systems sold to other materials handling producers. Though smaller than Link-Belt, the firm's long term performance record compares reasonably well, except for some outside financing in 1952, and again in 1956. Capitalization is still small however with only 736, 838 shares of stock outstanding, preceded only by $3.3 million in long term debt.

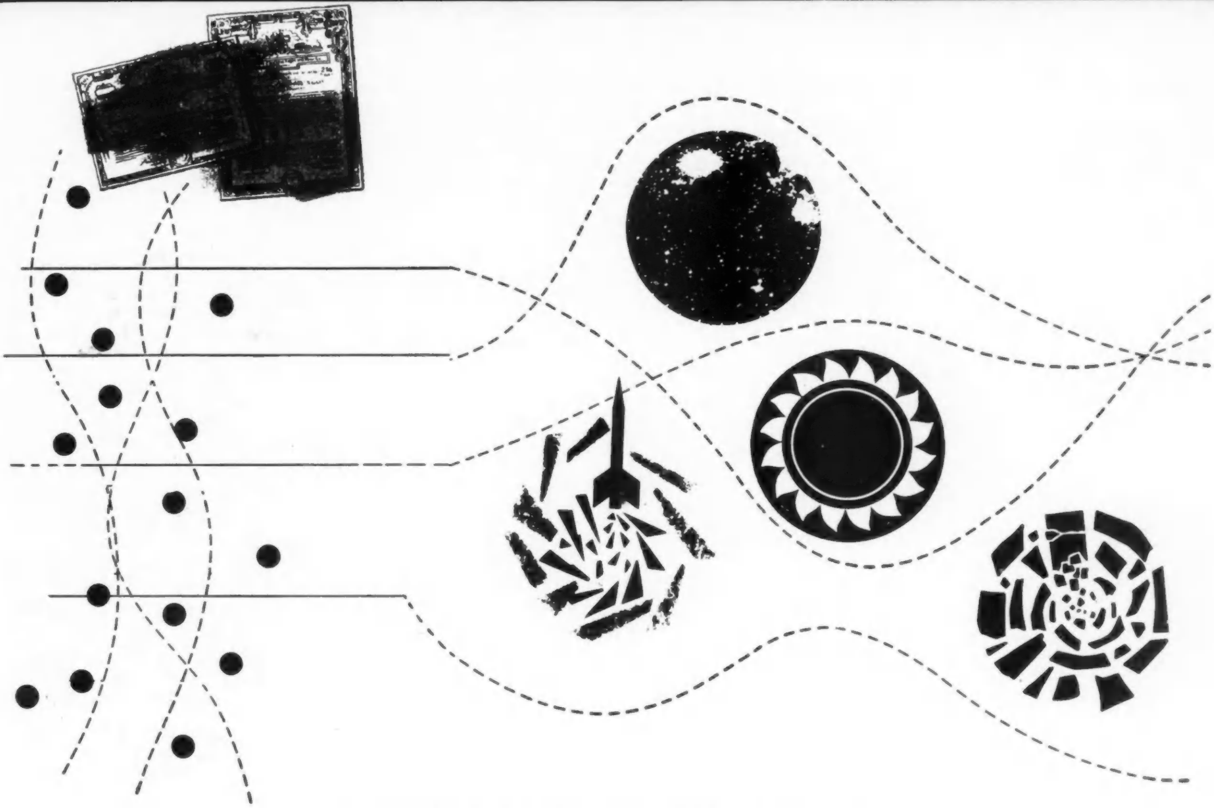
In the first nine months of this year shipments were at record levels, leading to a 7% increase in sales revenues, but also a moderate decline in backlog. Net income rose slightly to $4.64 per share from $4.62 (after adjustment for a 5% increase in the shares outstanding).

Full year earnings should approximate last year's results, and with the addition of full year benefits of new subsidiaries taken over during 1957, a satisfactory 1958 is in the cards, of course depending on the size of capital spending.

Among the fork-lift truck makers, **Yale & Towne** is probably best known for its locks and hardware, but materials handling equipment today produces the lion's share of revenues. Since the war, the company's accent on materials handling has led to particularly happy results. Sales have soared to almost $123 million in 1956 from a pre-war level of $17 million, and a 1946 figure of $40 million. Consistently sound finances have been maintained throughout the transition and both working capital and cash are in better shape today than they were in 1946. Earnings have improved from 81¢ in 1946, and amounted to $2.79 per share in 1956.

So far in 1957 the pattern of year-to-year sales gains has continued, but reflecting non-recurring start-up expenses of new plants, earnings have trailed 1956 all year. For nine months, the company earned $1.69 per share compared with $2.09 in the same period last year, and full year results will be down accordingly. However backlogs are at historically high levels as we approach 1958.

Clark Equipment, another (*Please turn to page* 306)



WHERE NOW–
For Secondary Defense Suppliers

Reappraisal of the Aircraft and Missile Subcontractors in A Period of Shifting Emphasis in U. S. Military Strategy

By IGOR de SEVENSKI

The President's renewed emphasis on defense spending may change it all, but in the meantime the Pentagon's first wave of cutbacks and stretchouts coupled with the shift in emphasis from manned aircraft to missiles, is playing havoc with many companies that have large stakes in subcontracting for the aircraft industry and other defense activities. Already, canceled projects and stretchouts are having a visible impact on business. Labor layoffs are cropping up in the industry. Many companies are beginning to shift from defense jobs to commercial business, and prime contractors are beginning to study each new job to determine whether they can do it themselves instead of farming it out to subcontractors. Some subcontractors who haven't the facilities to change to other jobs if prime contractors cancel or withhold orders could be backed right out of business, and others will face what could be serious losses in industrial investment.

Signs of these strains appear all over the nation. The West Coast, of course, heart of the aircraft industry, is hit the hardest. The Southwest also has suffered.

On the West Coast, the fate of the subcontractor typifies the problems that face them all over the nation. Business is down substantially, backlogs are down to only two weeks versus one year with some companies, and layoffs are becoming problematic. Many companies hoped that they could convert to military electronics work in the event of such a crisis but it's not working out that way. Switching from aircraft subassemblies, components, and parts to electronics work is illusionary since electronics takes different equipment and skills in most cases. Besides, competition is keen with many prime contractors going after more electronics work themselves.

Many business leaders believed that Sputnik would change all this and that all would be rosy for the future but a hard look at some of the facts convinces all but the most myoptic that the picture is unclear for many companies involved in subcontracting for the military, and perhaps only a handful will benefit. That the $38 billion defense ceiling will be raised is academic; already it has been raised to $38.7 billion

and at this point, it is about in line with the actual current rate of defense spending. Moreover, it will keep rising, as expected additional appropriations for missiles programs become effective. But, in terms of practical impact on the economy, this means that while there will be probably no further cutbacks, neither will there be any quick and dramatic increase in total government spending.

While the consequences of the Defense Department's budget crisis have been painful to military subcontractors there appears an even greater change, far more severe in the offing – in the approaching shift of U.S. strategy from its chief reliance on conventional aircraft to a reliance on missiles and other automatic weapons systems for national defense.

Not too long ago, aircraft magnates were exposed to some startling revelations in a meeting with the Air Force. A preview of the probable shape of things to come outlined by the new Secretary of the Air Force, James H. Douglas, with the aid of an analysis prepared by the Air Material Command showed changes in the buying pattern projected for the years up to 1960 that literally stiffened the executives in their seats. The salient points covered by this analysis are as shown in the box herewith.

That the Air Force, along with the Navy's Air Arm, is in the process of shifting more and more to missiles hardly came as a surprise to the prime contractors. What took them aback was the imminence and extent of the shift. The emergence of Sputnik should in fact accelerate this change and magnify the rate of conversion to missile thinking.

MISSILES VS. AIRCRAFT

— By 1960, the share of the Air Force's budget going to manned aircraft-bombers, interceptors and transports — is scheduled to be cut by more than half.

— Prime contractors producing these aircraft at the rate of $4 billion in 1956 are scheduled to drop to $1.9 billion for the year 1960.

— As the demand for manned aircraft drops, so will the demand for the turbojet engines that now go into them.

— In 1960, deliveries of such engines are scheduled to drop to an annual level of $995 million, a 34% shrinkage from the current $1.5 billion in 1956.

— On the other hand, the volume of the missile producers is expected to rise nearly sixfold, until by 1960 their $2.8 billion share of the Air Force business will be almost half as much again as that going for manned aircraft.

— Also the business of so-called esoteric engines — rockets, ramjets, and the like — will be rising almost as fast as that of the missile makers.

— The business of the electronic specialists also will increase more than 70%, reaching an estimated yearly output for the Air Force's account of $1.3 billion by 1960.

The Plight of the Subcontractor

What about the role of the subcontractor here? How about the corporation that diversified into the "subcontracting for the military field" which was the vogue "yesterday". The fate of their capital investment? That many are hurt with cutbacks and stretchouts is an obvious near-term deduction. But, what about the long-term effect of the more important shift to missiles concept? Perhaps many of these questions can be answered by a calculating look at the prime contractor's position here with the knowledge that "as the tree is bent, so are the branches".

For the aircraft industry it will be not one critical turning point, but rather a succession of turning points that will materialize as the new catalogue of missiles, both long and short range, offensive and defensive, emerge from the research and developmental stage and pass on their way through the service test phase to the operational inventory. These weapons in their manifold variety are designed to perform practically every job now being done by the airplane with the exception of reconnaissance and military transport and as far as reconnaissance is concerned, possibly cameras installed in missiles will supplant manned aircraft reconnaissance when technological "bugs" are ironed out.

Aircrafts on the Down-Grade

The fighter aircraft is clearly on the decline. After 1960, the manned fighter may be only an ancillary weapon. With the advent of close support missiles that can provide air cover for troops, such as the Army's Hawk and Corporal, and ground-to-air missiles like the Bomarc, the Air Force is preparing to adjust its concept of defense and attack without the interceptor. For the airframe industry that has concentrated on fighter aircraft, the outlook is uncertain and for those who have no stake in missiles, dim.

The aircraft engine field seems to have more than its share of troubles. With the exception of the major companies who will be capable of making chemical and nuclear power plants, the immediate situation is serious. Probably many smaller jet manufacturers will fall by the wayside.

The bomber's future, by contrast with that of the fighter, looks fairly secure, at least for the immediate future. The big changes in the wind will be a chemically fueled craft and a possibility of a nuclear-powered bomber sometime in the distant future.

It becomes evident that those companies in airframe subcontracting are vulnerable as well as those companies who will not be able to compete with the prime contractors for electronics work.

Within this general framework, each defense subcontractor will be affected differently, depending upon the amount of defense business he carries and his product. Basically, the big difference will be whether the company is a fabricator or has the research and development phase to back up his product. It all depends on whether they shift into non-military jobs if necessary, or into specialties that make them immune to defense changes.

Missile Subcontractors Also Have Difficulties

On the other hand those companies who can shift into missile subcontracting or are already doing such work, face a much brighter future. The bulk of defense spending seems to be heading for the missile program. Of particular note here is the fact that roughly three fourths of a missile's cost is in electronic components. Thus the field of electronics seems particularly attractive. On the whole, however, there are risks apparent even here since there are possibilities of changes in concentration of efforts and outlays for greatest speed and maximum results especially in "crash" programs headed by missile "czar" who may want (*Please turn to page* 311)

29 Secondary Defense Companies

		1956		1st 9 Months 1956		1st 9 Months 1957					
	Defense Items Mfg.	Net Sales (Mil.)	Earnings Per Share	Net Sales (Mil.)	Earnings Per Share	Net Sales (Mil.)	Earnings Per Share	Indicated 1957 Dividend	Recent Price	Price Range 1956-57	Div. Yield
ACF Industries	Missiles, electronic, navigational instruments.	$294.5[1]	$6.39[1]	$ 67.9[2]	$1.48[2]	$ 81.0[2]	$1.75[2]	$4.00	43	67⅞-39¼	9.3%
American Bosch Arma	Aircraft engine accessories, controls, instruments.	122.2	2.55	86.7	1.86	101.0	2.26	1.05	20	27 -16⅛	5.2
American Machine & Fdry	Missile launching equipment, radar components.	175.2	3.00	141.9	2.20	194.5	2.43	1.20	31	43¾-24¼	3.9
Avco Mfg.	Aircraft, jet engine components, control & armament equipment.	320.5	d1.84	246.1	d.41	238.9	.92	.10	6	7¾- 4⅞	1.6
Bell Aircraft	Helicopters—electronics, rocket engines, missile systems.	216.0	2.21	156.1	1.73	151.3	1.16	1.25	17	27 -11½	7.3
Bendix Aviation	Aviation, electronic and ordnance equipment.	581.4[3]	5.04[3]	437.3[4]	3.21[4]	541.1[4]	3.97[4]	2.40	48	66¾-42	5.0
Budd Co.	Alloy components for aircraft & aircraft engines.	307.8	1.97	231.9	1.64	243.9	1.63	1.40	16	21¾-13⅜	8.7
Chance Vought Aircraft	Naval fighter aircraft, guided missiles.	118.1	3.81	77.1	1.84	145.4	3.37	1.60	29	49¼-20⅝	5.5
Consol. Electrodynamics	Electronic control instruments.	25.0	1.35	22.4	.91	16.2	.55	.40	27	54¾-21	1.4
Curtiss-Wright	Jet and piston engines, aircraft equipment.	571.0	5.64	279.1[5]	2.76[5]	313.3[5]	2.72[5]	3.00	31	49¾-26¾	9.6
Daystrom, Inc.	Electronic & nuclonic instruments, controls.	74.4[6]	2.77[6]	33.6[6]	1.25[5]	39.3[5]	1.23[5]	1.20	33	47 -22	3.6
Fairchild Camera & Instru.	Aerial cameras and equipment.	42.9	1.48	20.6[6]	1.72[5]	19.9[5]	.56[5]	—	18	27⅜-16	—
Garrett Corp.	Various specialized aircraft products.	176.0[7]	5.02[7]	41.5[8]	1.32[8]	44.1[8]	.53[8]	2.00	28	54½-23¼	7.1
General Precision Equip.	Aircraft & missile controls, electronic computers.	153.2	1.63	74.1[5]	.84[5]	93.3[5]	2.10[5]	2.40	33	53½-30¼	7.2
General Tire & R. (Aeroject)	Rocket motors & components, propellants.	390.4	2.21	278.1	1.22	311.0	1.61	.70[13]	28	32⅞-15¾	2.5
Hazeltine Corp.	Radar and electronic systems.	6.9	2.80	(NA)	(NA)	(NA)	(NA)	1.40	34	48 -29¾	4.1
Hoffman Electronics	Sonar, radar, fire control, missile equipment.	46.5	2.19	34.2	1.51	31.1	1.65	1.00	19	25⅞-17¼	5.2
Kelsey-Hayes Co.	Jet engine turbine and compressor blades.	—	—	154.5[9]	5.28[9]	201.8[9]	6.22[9]	2.40	36	49¾-30	6.6
Litton Industries	Radar equipment, aircraft & missile control systems.	—	—	14.9[10]	.97[10]	27.9[10]	1.51[10]	—	38	56⅜-14¾	—
Menasco Mfg.	Landing gear for aircraft, missile components.	—	—	18.1[11]	.70[11]	23.7[11]	.76[11]	.30	4	8 - 4	7.5
Minneapolis-Honeywell Reg.	Aviation control instruments.	287.9	3.40	196.6	2.20	234.5	2.08	1.75	81	131 -58	2.1
Northrup Aircraft	Guided missiles—military aircraft.	—	—	322.4[10]	10.56[10]	281.2[10]	7.47[10]	1.60	22	29⅛-15¾	7.2
Olin Mathieson Chemical	Propellant rocket engine, & component parts.	596.6	3.38	456.9	2.71	448.5	2.12	2.00	43	62⅜-38⅝	4.6
Rheem Mfg.	Aircraft components, missile parts.	173.9	(d)5.01	126.4	(d)1.23	147.5	1.09	.10	13	37⅛-11¾	.7
Rohr Aircraft	Jet bomber struts and power packages.	—	—	90.0[10]	3.49[10]	115.7[10]	4.14[10]	1.40[13]	24	33¼-19¼	5.9
Solar Aircraft	Jet engine components, missile and rocket parts.	83.1	.55[1]	15.9[2](d)	.27[2]	21.8[2]	.91[2]	1.00	19	24 -15¾	5.2
Sperry Rand	Missile systems, electronic instruments, controls.	871.0[6]	1.74[6]	195.6[12]	.39[12]	213.1[12]	.35[12]	.80	19	29⅛-18	4.2
Thiokol Chemical	Solid propellant rocketry.	21.0	2.00	14.3	1.35	20.7	2.10	(14)	65	70½-23½	—
Thompson Products	Missile research and development, communication accessories.	306.5	4.60	214.7	2.66	284.1	3.73	1.40	51	89¾-46	2.7

(NA)—Not available.
(d)—Deficit.
1—Year ended April 30, 1957.
2—Quarter ended July 31.
3—Year ended Sept. 30.
4—9 months ended June 30.
5—6 months.
6—Year ended March 31, 1957.
7—Year ended June 30, 1957.
8—Quarter ended Sept. 30, 1957.
9—Years ended Aug. 31, 1956 and 1957.
10—Years ended July 31, 1956 and 1957.
11—Years ended June 30, 1956 and 1957.
12—Quarter ended June 30.
13—Plus stock.
14—Paid 5% in stock.

FOR PROFIT AND INCOME

Cross Currents

The stock groups performing better than average at this writing are principally aircrafts and air transport, both in sharp rallies after extreme declines; also drugs, electrical equipment, baking, food brands, dairy products, food stores and tobaccos. The more important groups under more than average pressure at this time are automobiles, chemicals, machinery, metal fabricating, oils, paper, rails, rail equipments, steel and tires.

Smart?

On balance, open-end investment trusts added to stock holdings in the third quarter, with oils the most popular group. The group is currently at a new low, well under its third-quarter average level and its level at the end of the quarter. Of course, the buying is long term, and could eventually prove right. But certainly the medium-term domestic oil picture is clouded by over-supply and pressure on product prices; and there are worrisome longer-range contingencies in the foreign end of the business. The uncertainties posed by Russian policy in the Middle East and by extreme Arab nationalism need no emphasis. The general deal on foreign crude oil production by international companies is a 50-50 profit split. However, one Italian company has breached this with a 25-75 arrangement in Iraq. How long will other governments in the Middle East and elsewhere be content with a 50% share of the oil money? We continue to see no need for hurry in buying oil stocks.

Drugs Favored

Mutual, and other, fund managers stepped up purchases of drug stocks markedly in the third quarter; and, judging by the performance of the group in October and in November to date, this preference has continued. The basis for it is clearer than that in the case of oils. Although most drug stocks are at least medium-high on current earnings, profits are tending up; and the general prospect is favorable for 1958 and beyond because the business is largely unaffected by normal variations in economic activity. This is one of the very few stock groups which, on the July-October market decline, remained well above its low point of last February. A bullish long-pull viewpoint on se-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
American Chicle	Quar. Sept. 30	$1.28	$1.11
Colgate-Palmolive Co.	Quar. Sept. 30	1.70	.91
Cooper-Bessemer Corp.	Quar. Sept. 30	1.20	1.04
General Cigar Co.	Quar. Sept. 30	1.47	.93
Harbison-Walker Refract.	Quar. Sept. 30	1.12	.78
Textron, Inc.	9 mos. Sept. 30	1.67	.71
Allen Industries	9 mos. Sept. 30	2.05	1.35
Philco Corp.	Quar. Sept. 30	.37	.04
Pittsburgh Consol. Coal	Quar. Sept. 30	.66	.52
Sheller Mfg. Co.	Quar. Sept. 30	.38	.01

lected drug stocks remains justified. Among the best are American Home Products, Mead Johnson, Merck, Parke Davis, Pfizer and Warner-Lambert.

Support

As indicated by their present positions in 1957 price ranges, the following stocks have continued to meet a degree of support well above average American Bakeries, American Chicle, American Stores, Anchor Hocking Glass, Borden, Corn Products, General Foods, Household Finance, National Biscuit, Penick & Ford, Lorillard, Kroger, Merck, National Dairy Products, National Tea, Outlet Company, Parke Davis; Procter & Gamble, Reynolds Tobacco, Safeway Stores, Standard Brands, U. S. Gypsum and Warner-Lambert.

Soft

The "weak sisters" at this writing are much more numerous. A few of them are: American Brake Shoe, Allied Chemical, American Sugar, Armstrong Cork, Atlantic Refining, Best, Carpenter Steel, Caterpillar Tractor, Container Corp., Continental Oil, Ingersoll Rand, Oxford Paper, Yale & Towne, Underwood, Union Carbide, Woolworth, U. S. Plywood, United Fruit, Swift, Socony Mobil, Shell Oil, Scott Paper, Johns-Manville, and United Shoe Machinery.

Roller-Coaster

Those holding aircraft-missile stocks have certainly had to hang on to their hats in a dizzying roller-coaster ride. With earnings generally good, the stocks took a deep dive when speculative sentiment turned sour—on contract stretch-out news; and have shot up recently on expectation that more defense dollars will have to be spent for missiles as a result of pressure created by the two Russian "Sputniks" and the Communist progress in rocketry that they signify. To cite two more extreme examples, both Martin and Northrop fell over 40% from their highs and at this writing have risen around 40% from their recent lows. What might they do from here on? We don't know. Let the other fellow try to guess it.

Diversification

Holders of General Dynamics have one comforting fact to tie to. It has broad diversification in missiles, aircraft, submarines, telephonic and electronic equipment, industrial gases and other activities, including nuclear-energy development work. Thus, the company is among the least vulnerable to shifts in the allocation and total of defense spending. Along somewhat different lines, Douglas Aircraft is also in a favored position, with strong representation in missiles, military planes and commercial transports, in the last of which it is outstanding. Present sales and earnings are predominantly from military business. Indeed, development costs on commercial jet transports are a drag on profits. But civilian bookings are half of a total order backlog of over $1.9 billion; and this is a "nest egg" for the future. It promises to bolster or add to earnings for at least several years after 1958.

Turn?

Copper stocks have had a sizable rally, sparked by recent modest firming in the metal's world price. The U. S. producers' price of 27 cents a pound remains above the world level, and above that at which the metal is offered by domestic custom smelters. Supplies remain more than ample. A price rally in the open market is one thing, a basic turn something else. The latter can hardly be expected in the face of mounting indications of industrial recession here and in various other countries. Therefore, the present 27-cent producers' price here may or may not hold. Certainly a basis for any boost any time soon is not apparent. Conclusion: It is late to sell leading copper stocks, premature to buy. We prefer waiting for convincing evidence of a real turn. The risk of paying higher prices for these issues in so doing probably is no greater than, and may be less than, that involved in assuming that the bottom has been put behind.

Case in Point

Phelps Dodge is a strong, basically well-situated domestic copper producer. It earned $8.72 a share (before depletion) last year; and paid $5 in dividends, including $2 in extras. It may net around $4.30 or so a share this year, with each quarter at a lower level. Thus, third-quarter profit was at a rate of about $3.35 annually. That for the fourth quarter may be at a rate nearer $2.90. Dividends may well continue at the regular $3 rate (although this is not assured) since cash holdings at about $192 million at the end of last year, are huge and well in excess of working capital needs. On this basis, the yield at the stock's present price of 46, up from recent low of 41⅛, is about 6.5%. However, the stock, like all coppers, normally sells at yields far above average. Taking its annual average prices, it sold at yields above 7% in each of the four years 1953-1956, and above 8% in each of the four years 1949-1952. On a $5 basis it yields 6.5% at 1956 high and 9% at 1956 low. So examined, the stock's net decline of about 40% from 1956 top of 76⅞ has not made it cheap.

Payoff

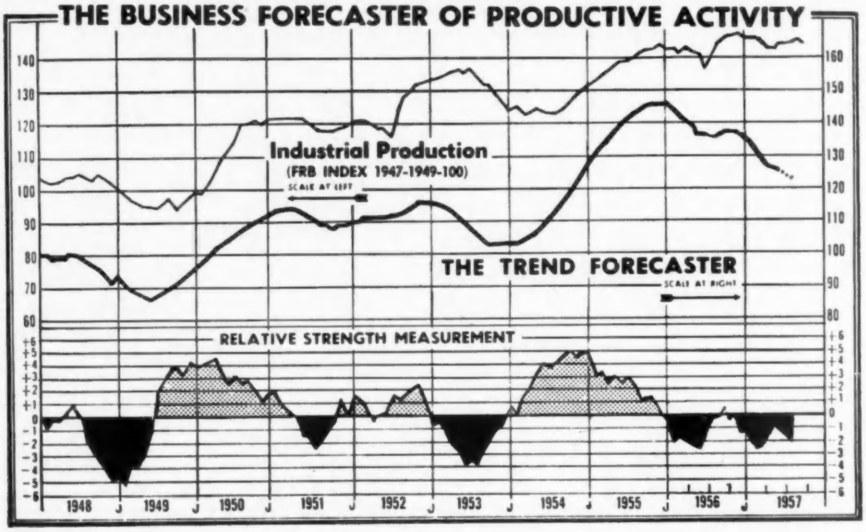
The golden dividend picture of recent years is getting somewhat tarnished. True, total payments continue at a record level, about 4% above a year ago. However, this is largely due to increases in rates or to extras forthcoming in earlier months. In terms of action by individual companies, the dividend news is becoming progressively less cheerful. In October there were increases in indicated

(*Please turn to page* 316)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

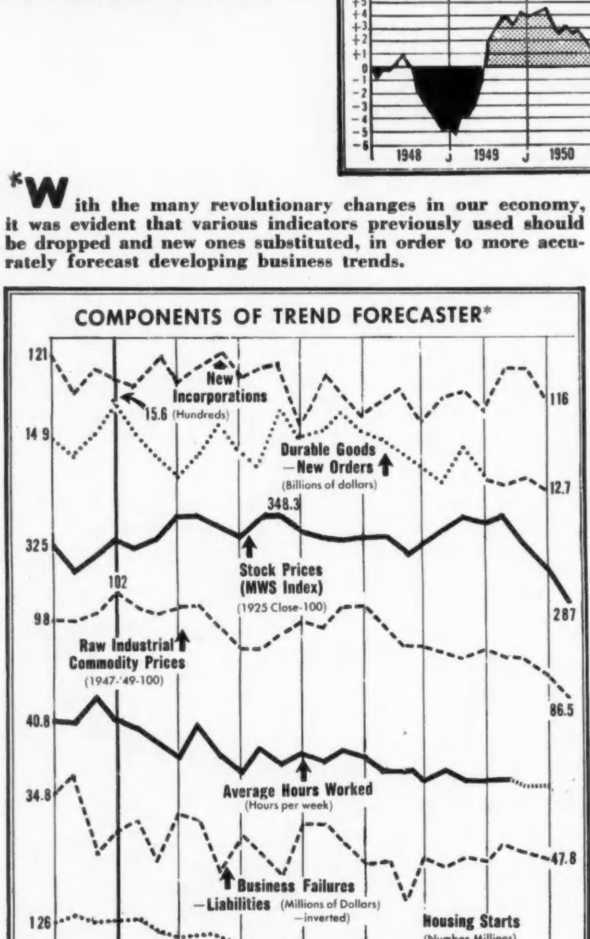
		1957	1956
Dr. Pepper Co.	9 mos. Sept. 30	$ .69	$1.00
Granite City Steel	Quar. Sept. 30	.75	1.77
Greenfield Tap & Die	Quar. Sept. 30	.35	.53
Motor Wheel Corp.	9 mos. Sept. 30	.64	1.38
National Acme Co.	Quar. Sept. 30	1.27	2.05
Pacific Lighting Corp.	12 mos. Sept. 30	2.04	2.93
Square D Co.	9 mos. Sept. 30	1.24	1.62
Thompson Products	Quar. Sept. 30	.78	.95
Filtrol Corp.	Quar. Sept. 30	.84	.95
Bohn Aluminum & Brass	9 mos. Sept. 30	1.11	1.64

the Business



Business Trend Forecaster*

*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(*)—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Recent figures for the components of the **Trend Forecaster**, confirm that business has continued to weaken. New orders for durable goods receded again in September, reaching a new low since February, 1955. Nonresidential construction contract awards (three month moving average), have declined further while stock and raw industrial commodity prices which broke badly in October, are lower today than their average for that month. Preliminary data on hours worked indicate a dip in October, only partially accounted for by absence due to illness.

October data for new incorporations, business failures and new housing starts are not available as yet and these figures are needed to determine whether the **Relative Strength Measure** has finally broken below the significant minus 3 level. However, even if such a penetration has not occurred as yet, the **Relative Strength Measure** remains well in minus territory and the **Trend Forecaster** continues to decline. The action of both these indicators still forecast business weakness in coming months, a message they have been spelling out without interruption since late 1956.

Analyst

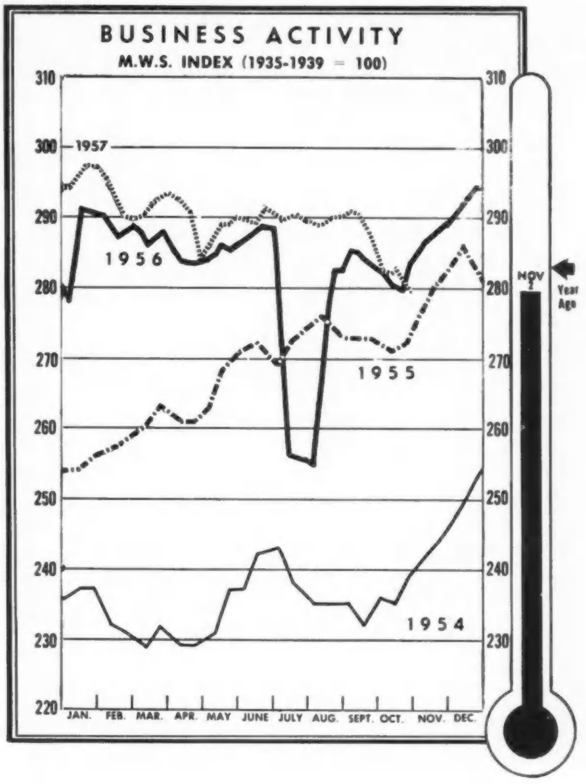
CONCLUSIONS IN BRIEF

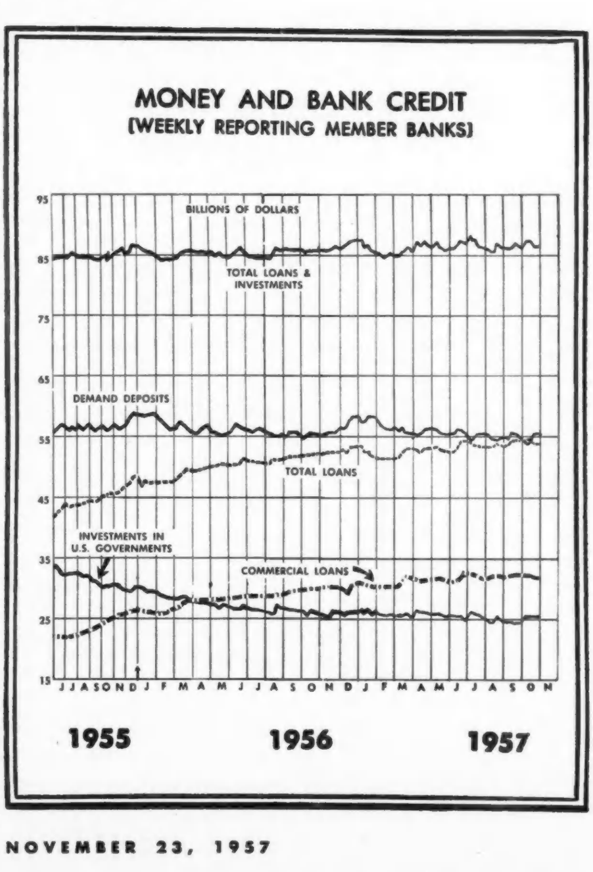
INDUSTRY — Expect reductions in output to gather impetus in coming weeks. Decline in incoming orders, low backlogs and the necessity for reducing inventories, all point to a lowering of the rate of production.

TRADE — Retail sales have been declining since August. The fact that dollar volume in October was still 4% ahead of a year ago, was mainly due to the rise in prices during the period. No pickup in seasonally adjusted dollar volume of sales in sight for balance of year.

MONEY — Treasury and municipal bonds have begun to exhibit some strength as investors anticipate business downturn, but corporates continue to lag. However, demand for high-grades—including corporates—should pick up speed as financing for capital spending begins to recede.

COMMODITIES — Raw material prices continue easy but price level of finished products is still being maintained in most cases. Downturn in prices of manufactured goods should start soon, accompanying unloading of inventories.





The economic fraternity has reached almost unanimous agreement on the direction of business in coming months. It will be **downward**—a conclusion that by now is obvious to even the casual reader of business statistics. Recent economic data indicate that business has been dropping on a broad front. In fact, a wide variety of indicators, including laggards like employment and retail sales, are showing the effects of economic contractions surprisingly early in the downturn.

Nevertheless, the current setback, although widespread, is still of moderate proportions in most cases, although in some areas, the slide-off has assumed sizeable proportions. Freight car loadings, for instance, have been slipping since mid-August and by October they had plunged to a level some 11% under a year ago. Just as conclusive evidence of the slowdown is provided by manufacturers' new orders which in September fell to $26.8 billion on a seasonally adjusted basis, down from $27.3 billion in August and a high of $31.1 billion in August 1956. Most significant is the fact that manufacturers' shipments in September exceeded new orders by $1.4 billion, with the entire excess concentrated in the durable goods field. With backlogs low and inventories high, producers will have to cut output of durables on the order of 10% to bring output in line with orders and further reductions will be necessary to reduce inventories to more normal proportions.

In the face of this kind of evidence of a business contraction, it is not surprising to find the economists in agreement on the direction in which the economy is headed. There

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Sept.	144	145	144
Durable Goods Mfr.	1947-'9-100	Sept.	159	162	162
Nondurable Goods Mfr.	1947-'9-100	Sept.	132	131	130
Mining	1947-'9-100	Sept.	129	130	131
RETAIL SALES*	$ Billions	Oct.	16.6	16.9	15.9
Durable Goods	$ Billions	Oct.	5.6	5.7	5.4
Nondurable Goods	$ Billions	Oct.	10.9	11.2	10.5
Dep't Store Sales	1947-'9-100	Oct.	121	128	122
MANUFACTURERS'					
New Orders—Total*	$ Billions	Sept.	26.8	27.3	31.1
Durable Goods	$ Billions	Sept.	12.7	13.2	17.3
Nondurable Goods	$ Billions	Sept.	14.1	14.2	13.7
Shipments*	$ Billions	Sept.	28.2	28.6	27.6
Durable Goods	$ Billions	Sept.	14.1	14.3	13.7
Nondurable Goods	$ Billions	Sept.	14.1	14.3	13.9
BUSINESS INVENTORIES, END MO.*	$ Billions	Sept.	91.4	91.3	86.9
Manufacturers'	$ Billions	Sept.	54.1	54.2	50.8
Wholesalers'	$ Billions	Sept.	12.8	12.8	12.6
Retailers'	$ Billions	Sept.	24.5	24.3	23.4
Dept. Store Stocks	1947-'9-100	Sept.	143	143	139
CONSTRUCTION TOTAL*	$ Billions	Sept.	4.6	4.6	4.4
Private	$ Billions	Sept.	3.1	3.1	3.1
Residential	$ Billions	Sept.	1.6	1.6	1.6
All Other	$ Billions	Sept.	1.5	1.5	1.5
Housing Starts*—a	Thousands	Sept.	990	1,010	1,008
Contract Awards, Residential—b	$ Millions	Sept.	1,151	1,284	1,047
All Other—b	$ Millions	Sept.	1,474	1,534	1,528
EMPLOYMENT					
Total Civilian	Millions	Sept.	68.2	69.0	68.1
Non-Farm	Millions	Sept.	53.2	52.9	52.7
Government	Millions	Sept.	7.4	7.2	7.2
Trade	Millions	Sept.	11.6	11.5	11.3
Factory	Millions	Sept.	13.0	13.1	13.3
Hours Worked	Hours	Sept.	40.0	40.0	40.7
Hourly Earnings	Dollars	Sept.	2.08	2.07	2.01
Weekly Earnings	Dollars	Sept.	83.20	82.80	81.81
PERSONAL INCOME*	$ Billions	Sept.	347	347	331
Wages & Salaries	$ Billions	Sept.	241	242	230
Proprietors' Incomes	$ Billions	Sept.	51	51	50
Interest & Dividends	$ Billions	Sept.	32	32	30
Transfer Payments	$ Billions	Sept.	21	21	19
Farm Income	$ Billions	Sept.	15	16	15
CONSUMER PRICES	1947-'9-100	Sept.	121.1	121.0	117.1
Food	1947-'9-100	Sept.	117.0	117.9	113.1
Clothing	1947-'9-100	Sept.	107.3	106.6	106.5
Housing	1947-'9-100	Sept.	126.3	125.7	122.5
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Sept.	106.2	106.8	106.1
Bank Debits*—g	$ Billions	Sept.	81.3	83.6	73.7
Business Loans Outstanding—c	$ Billions	Sept.	32.4	32.6	29.7
Instalment Credit Extended*	$ Billions	Sept.	3.6	3.6	3.2
Instalment Credit Repaid*	$ Billions	Sept.	3.4	3.3	3.1
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Aug.	5.1	3.1	5.0
Budget Expenditures	$ Billions	Aug.	5.9	6.3	5.9
Defense Expenditures	$ Billions	Aug.	3.9	3.6	3.5
Surplus (Def) cum from 7/1	$ Billions	Aug.	(4.1)	(3.3)	(3.0)

PRESENT POSITION AND OUTLOOK

still exists, however, a marked difference of opinion as to the length and duration of the contraction. The majority view, at least for publication, sees no more than a mild downswing on the order of 1953-1954, which should be over by mid-1958. In support of this expectation can be cited some incontestable elements of support for the economy, including an expected upturn in military spending, higher outlays by state and local governments and a possible improvement in housing demand. Normally, such supports would be important factors in cushioning contractive forces. Today, however, we are also faced with serious imbalances in several fields, including top-heavy debt, widespread excess capacity and unrealistic price-wage levels in some fields. Conceivably, existing elements of strength in the economy may be insufficient to correct such maladjustments in the course of a short-term economic correction.

* * *

CAPITAL SPENDING DOWNTURN—Expenditures for new plant and equipment—since early 1955, one of the mainsprings of business strength—are threatening to become an important weakness in 1958. A survey taken in recent weeks, has elicited the fact that businessmen were planning a 7% reduction in capital spending next year, with manufacturers scheduling a 16% cut while nonmanufacturing would be only 1% lower.

An over-all reduction of 7% in capital outlays would not be calamitous, but the big question at the moment is whether the contraction can be held to those proportions. Actually, manufacturing industry, today is operating at an estimated 82% of capacity, somewhat lower than its early 1955 ratio of output to capacity. At the same time capital outlays are 60% higher than in the earlier period. Spending in this sector is thus vulnerable to a greater reduction than the 16% figure currently contemplated. Moreover, in those nonmanufacturing lines which are more dependent on the consumer, there is often a lag in reflecting economic changes. Those areas could feel the bite of a business downturn later on, with deleterious effect on their expansion plans. There is thus no assurance that capital spending can be maintained at the relatively high levels envisaged in current executive planning.

* * *

WHAT'S RESTRAINING BOND PRICES?—Prices of high-grade corporate bonds remain close to recent lows despite the

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1957 III Quarter	1957 II Quarter	1957 Quarter	1956 III Quarter
GROSS NATIONAL PRODUCT	439.0(e)	434.3	429.1	416.7
Personal Consumption	283.2(e)	278.9	276.7	268.6
Private Domestic Invest.	65.5(e)	65.0	62.7	65.5
Net Foreign Investment	3.2(e)	3.5	4.1	2.0
Government Purchases	87.2(e)	86.9	85.6	80.6
Federal	50.8(e)	51.1	50.3	47.2
State & Local	36.4(e)	35.8	35.3	33.0
PERSONAL INCOME	346.5(e)	342.4	337.7	328.7
Tax & Nontax Payments	43.5(e)	42.9	42.2	39.8
Disposable Income	303.0(e)	299.5	295.5	288.8
Consumption Expenditures	283.2(e)	278.9	276.7	268.6
Personal Saving—d	19.8(e)	20.6	18.9	20.3
CORPORATE PRE-TAX PROFITS*		42.0	43.9	40.8
Corporate Taxes		27.4	22.4	20.8
Corporate Net Profit		20.5	21.5	20.0
Dividend Payments		12.5	12.1	12.1
Retained Earnings		8.0	9.1	7.9
PLANT & EQUIPMENT OUTLAYS	37.2(e)	37.0	36.9	35.9

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Nov. 2	279.8	281.5	283.7
MWS Index—per capita*	1935-'9-100	Nov. 2	212.0	213.4	218.5
Steel Production	% of Capacity	Nov. 9	78.7	79.7	100.1
Auto and Truck Production	Thousands	Nov. 9	166	154	161
Paperboard Production	Thousand Tons	Nov. 2	292	294	282
Paperboard New Orders	Thousand Tons	Nov. 2	358	243	372
Electric Power Output*	1947-'49-100	Nov. 2	226.8	226.8	219.7
Freight Carloadings	Thousand Cars	Nov. 2	714	704	800
Engineering Constr. Awards	$ Millions	Nov. 7	148	371	281
Department Store Sales	1947-'9-100	Nov. 2	122	127	124
Demand Deposits—c	$ Billions	Oct. 30	55.8	55.4	56.1
Business Failures	Number	Nov. 2	250	281	271

PRESENT POSITION AND OUTLOOK

clear signs of an easing in business. This is in sharp contrast to their course in the 1953 recession when bonds began to rise —and yields to fall—while business indices were still at a peak. One reason for the different response this time stems from differing Federal Reserve action. In the earlier period the Central Bank had acted to ease credit as early as May, 1953, while in the current period, tight money is still high and this year's outpouring of corporate bonds to finance record plant and equipment spending, is still continuing. This situation should change, however, in coming months. By early next year capital spending and inventories should be lower, with concomitant decreases in demands for funds.

* * *

THE CAUTIOUS CONSUMER—Rendered more prudent perhaps by the recent stock market break and news of lagging employment, the consumer has reduced his spending pace. At least that is the burden of retail sales figures, which were down again in October, for the second month in a row. On a seasonally adjusted basis, October sales came to $16.6 billion, versus $17.0 billion in August, the reduction hitting both durable and nondurable goods with about equal impact. On the basis of these developments, **Christmas trade is not going to come up to retailers fond hopes.**

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1957 Range High	1957 Range Low	1957 Nov. 1	1957 Nov.8
300 Combined Average	346.6	279.6	279.8	279.6L
4 Agricultural Implements	282.4	203.6	209.0	209.1
3 Air Cond. ('53 Cl.—100)	122.8	82.7	86.1	86.1
9 Aircraft ('27 Cl.—100)	1388.8	882.6	925.3	982.2
7 Airlines ('27 Cl.—100)	1022.5	581.5	651.6	641.6
4 Aluminum ('53 Cl.—100)	464.5	274.5	278.7	278.7
6 Amusements	172.6	123.5	123.5	125.0
9 Automobile Accessories	384.4	309.6	320.3	316.8
6 Automobiles	54.3	40.5	41.4	40.5L
4 Baking ('26 Cl.—100)	29.7	26.3	27.6	27.3
3 Business Machines	1285.3	884.3	925.4	884.3L
6 Chemicals	652.3	496.7	496.7	502.7
4 Coal Mining	25.1	16.8	18.2	18.0
4 Communications	106.0	83.1	84.0	83.1L
9 Construction	126.8	100.7	103.2	104.4
7 Containers	799.9	656.5	664.0	656.5L
7 Copper Mining	307.6	185.8	198.0	201.0
2 Dairy Products	112.4	103.8	107.0	109.1
6 Department Stores	89.2	78.4	79.2	78.4
5 Drugs-Eth. ('53 Cl.—100)	259.2	175.2	220.8	220.8
6 Elec. Eqp. ('53 Cl.—100)	244.4	187.8	190.1	187.8
2 Finance Companies	584.5	525.0	530.8	530.8
6 Food Brands	280.2	239.8	247.8	250.5
3 Food Stores	183.9	153.8	170.5	172.2

(Nov. 14, 1936 Cl.—100)	1957 Range High	1957 Range Low	1957 Nov. 1	1957 Nov.8
100 High Priced Stocks	236.9	191.7	192.0	191.7L
100 Low Priced Stocks	415.9	321.8	321.8	322.8
4 Gold Mining	726.2	567.8	581.0	567.8L
4 Investment Trusts	184.5	142.4	144.0	144.0
3 Liquor ('27 Cl.—100)	1094.5	855.7	865.7	885.6
9 Machinery	523.4	369.4	374.6	369.4L
3 Mail Order	174.6	142.1	142.1	143.8
4 Meat Packing	142.6	103.5	106.2	103.5
5 Metal Fabr. ('53 Cl.—100)	198.3	148.7	154.5	148.7L
10 Metals, Miscellaneous	420.9	291.4	291.4	303.5
4 Paper	1060.1	789.9	789.9	810.6
22 Petroleum	914.4	667.3	683.8	667.3L
21 Public Utilities	263.6	236.5	239.0	239.0
7 Railroad Equipment	91.4	63.5	66.1	63.5L
20 Railroads	72.7	45.9	46.6	45.9L
3 Soft Drinks	509.8	432.7	441.3	436.9
12 Steel & Iron	393.0	275.1	279.0	275.1
4 Sugar	116.9	97.9	97.9	99.8
2 Sulphur	926.7	571.6	580.0	571.6L
11 Television ('27 Cl.—100)	36.0	27.2	27.6	28.9
5 Textiles	149.9	102.3	105.1	102.3L
3 Tires & Rubber	197.6	156.6	158.4	156.6L
5 Tobacco	101.5	87.0	98.1	97.2
2 Variety Stores	237.7	240.1	245.3	2401L
15 Unclassif'd ('49 Cl.—100)	168.9	140.2	140.2	141.8

L—New Low for 1957.

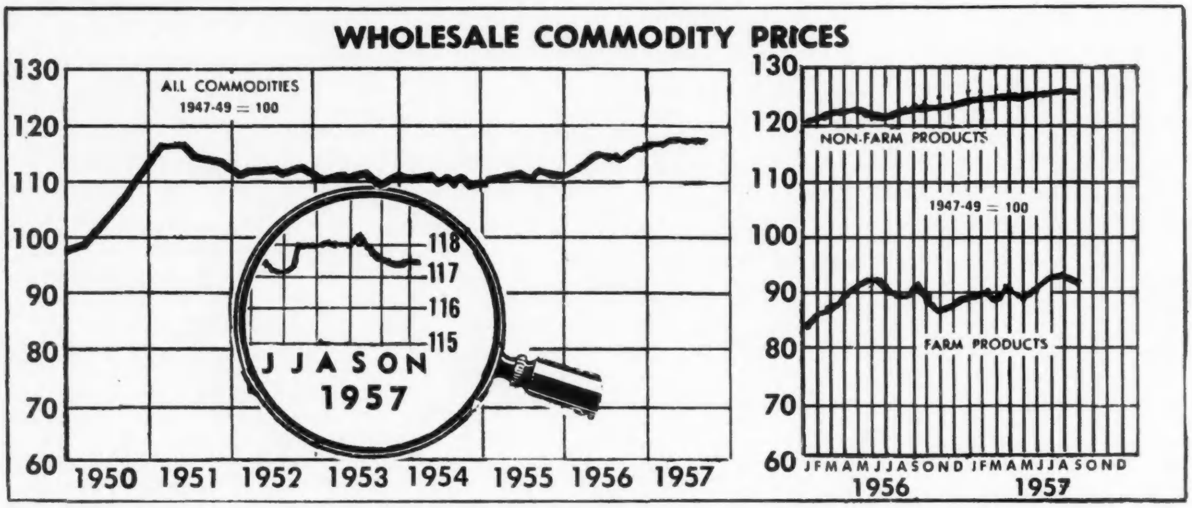
Trend of Commodities

SPOT MARKETS — The Bureau of Labor Statistics' index of 22 leading commodities was down only 0.1% in the two weeks ending November 8, but this minute decline was the result of strength in the food component rather than any general upswing. Other sectors were mostly lower with raw industrial materials sliding off another 1.4%.

The main body of commodities also worked somewhat lower in the two weeks ending November 5, according to the BLS comprehensive wholesale price index. The culprit in this case was the farm products component, which lost 1.1%. The index of all other commodities continued its sidewise movement of the past month. However, this stalemate may soon be broken. Current business weakness should lead to more strenuous efforts to reduce inventories, with concomitant price concessions.

FUTURES MARKETS — Most of the actively traded commodity futures moved higher in the two weeks ending November 8. Traders attributed the prevailing strength to two factors in the main, namely the growing possibility of larger defense spending and the fact that many farm commodities are selling under government loan levels.

Wheat futures improved in the two weeks under review and the December option added 3 cents to close at 219¾. The U. S. Dept. of Agriculture recently estimated that the wheat carryover on July 1, 1958 may be about 58 million bushels under a year earlier, the entire reduction being attributable to this year's drop in output. Further support stems from the discount still prevailing between current wheat prices and government support levels.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Nov. 5	117.5	117.7	115.9	60.2
Farm Products	Nov. 5	90.7	91.7	87.9	51.0
Non-Farm Products	Nov. 5	125.6	125.6	124.2	67.0
22 Basic Commodities	Nov. 8	84.3	84.4	91.7	53.0
9 Foods	Nov. 8	83.5	82.5	81.5	46.5
13 Raw Ind'l. Materials	Nov. 8	84.5	85.6	99.3	58.3
5 Metals	Nov. 8	89.0	90.0	124.6	54.6
4 Textiles	Nov. 8	79.4	79.1	82.7	56.3

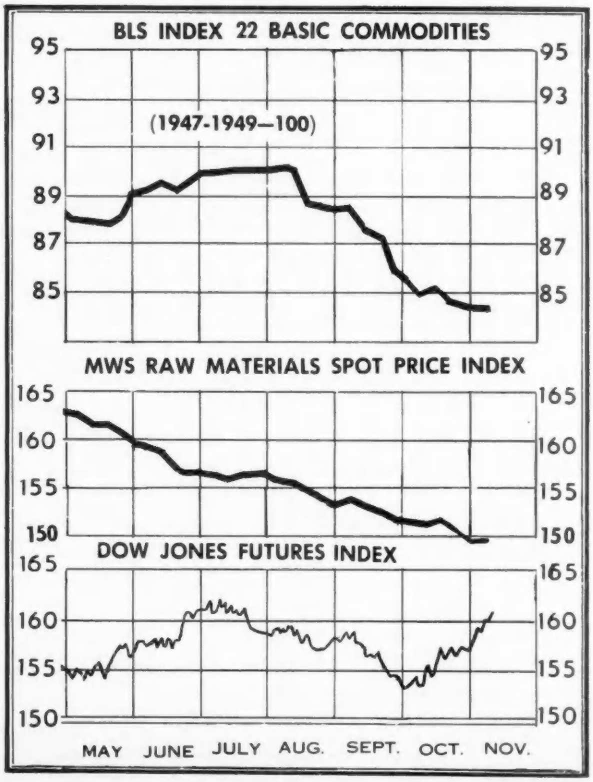
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1957	1956	1953	1951	1945	1941
High of Year	166.3	169.8	162.2	215.4	98.9	85.7
Low of Year	149.6	163.1	147.9	176.4	96.7	74.3
Close of Year		165.5	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1957	1956	1953	1951	1945	1941
High of Year	163.4	166.7	166.5	214.5	106.4	84.6
Low of Year	153.8	163.1	147.9	176.4	96.7	74.3
Close of Year		162.7	166.8	189.4	105.9	84.1



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

American Steel Foundries

"I should like to take advantage of your subscribers' personal consultation service and obtain information on American Steel Foundries. I enclose a stamped reply envelope and am looking forward to your report."

P.E., Richmond, Va.

American Steel Foundries is a manufacturer of railroad equipment parts, also makes steel castings for dredges, road and mining machinery, rolling and stamp mills, etc. The nature of this business is cyclical with sales and earnings subject to wide swings.

American Steel Foundries had net income of $8,008,000 on sales of $123,000,000 in the fiscal year ended September 30th, 1957. This compares with net income of $8,371,000 on sales of $117,000,000 in 1956. Net income in 1957 was equal to $6.20 per share on the 1,290,690 shares outstanding at the year-end, as compared to $6.52 per share in 1956 after giving affect to the 5% stock dividend paid in October, 1956.

While 1957 earnings were slightly less than 1956, they were the second largest in the company's history. Earnings were adversely affected in 1957 by increases in labor rates and material costs that could not be offset entirely by increased selling prices. In addition, there were substantial initial costs involved in starting regular production of the new King Vertical Boring Mill. Start-up costs at the new Griffin Wheel Co. plant at Colton, Calif., also contributed to the small decrease in earnings.

A cash dividend of 60¢ per share was paid in each quarter and an extra dividend of 50¢ per share was paid September 13th, 1957. Cash dividends aggregated $2.90 per share in 1957. In 1956, cash dividends were equal to $2.27 per share after adjusting for the 5% stock dividend paid on October 19, 1956.

Unfilled orders amounted to $53,000,000 on September 30th, 1957, as compared to $62,000,000 at the beginning of the year. While the amount of unfilled orders has decreased, the $53,000,000 backlog is large.

Operations over the near-term should be satisfactory.

Union Tank Car Co.

"I am retired and dependent on income from securities. I have a modest holding in Union Tank Car Co. which yields a satisfactory income return but I am concerned with maintaining investments in stable industries. Should I continue to hold Union Tank Car Co.?"

M.F., Omaha, Nebr.

Union Tank Car Co. has a record of stable earnings and also has shown some growth in line with the increase in consumption of commodities carried in its cars. The stock provides an excellent yield and is suitable for a retired investor seeking good stable income.

Union Tank Car Co. is the leading supplier of tank cars serving the petroleum industry and also leases cars to rail shippers of chemicals, coal tar products, vegetable oils, liquid fertilizers, and numerous other liquid products. Its fleet presently numbers about 52,000 tank cars. The company has exclusive contracts with practically all Standard Oil units and also with other important oil companies, under which it supplies through lease agreements their entire tank car requirements.

For the nine months ended September 30th, 1957, net earnings were up to $1.92 per share, from $1.72 per share for the corresponding period a year ago. Net income for the nine months was $5,223,539, a 13% increase from the like period in 1956 when net income was $4,611,681.

On September 9th, Union Tank Car Co. acquired Phoenix Manufacturing Co. of Joliet, Ill. and its wholly owned subsidiary, Graver Tank & Manufacturing Co., Inc., of East Chicago, Ind. This was accomplished by the issuance and distribution of 441,252 shares of Union Tank stock to the stockholders of Phoenix. Since the properties acquired with these shares operated as part of the Union Tank group for only three weeks of the nine months period covered by the above earnings, the $1.92 net income per share of Union Tank is calculated on the basis of 2,721,960 shares, the average number of shares outstanding during the period. The $1.72 earned per share in the like 1956 period was based on 2,685,714 shares.

Dividend payments in 1957 will total $1.60 per share, the same as paid in 1956.

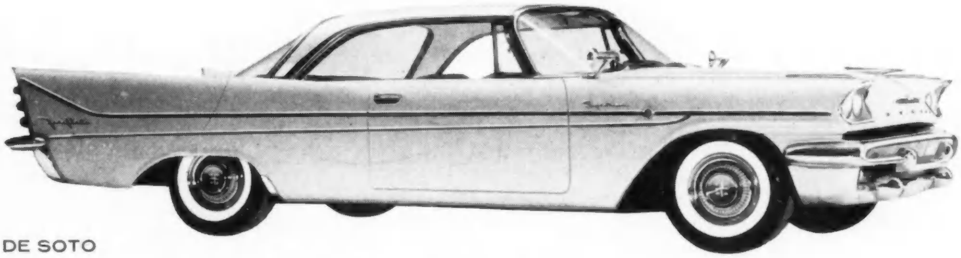
Prospects over coming months continue favorable. —END

1958 PLYMOUTH

DISCOVER, COMPARE, DECIDE

1958 DODGE

FOR '58 MORE THAN EVER

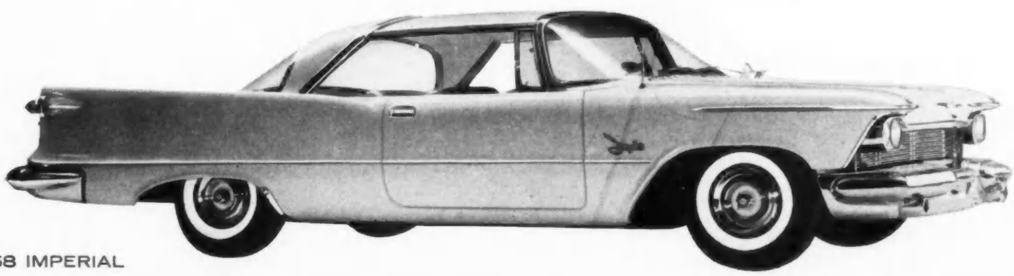


1958 DE SOTO

THE *FORWARD* LOOK

1958 CHRYSLER

IS THE ADVANCE DESIGN



1958 IMPERIAL

CHRYSLER CORPORATION THE *FORWARD* LOOK

The Problem of National Solvency

(*Continued from page* 266)

Such actions are almost certain to collide with government full-employment policies and politicians' logrolling for more government spending.

C. Canby Balderston, vice chairman of the Federal Reserve Board of Governors, not long ago aptly pointed up the unassailable logic that we can't do everything at once and still maintain an honest dollar: "But no matter how great is our need and desire for more and better schools, roads, housing, and productive facilities, the simple fact is that they must be fitted into our available capacity and resources. . . . In the final analysis, investment must be financed primarily by taxation or by real savings from current income. A small amount of investment may be financed out of bank credit expansion to provide monetary growth, *but this amount must be kept within the margin of tolerance for a stable dollar.* (italics ours) The advantages of a stable dollar certainly outweigh the disadvantages of temporarily postpoining additions to housing or plant and equipment that cannot be financed out of savings, or schools and roads that the community is unwilling to finance out of taxes."

There are some encouraging signs that governments are becoming aware of the need to maintain the value of their currency. The British Government's tight money policy and its announced determination to resist unwarranted wage increases – even though unemployment should result – is an example. France's efforts to stabilize the franc by cutting government spending and living within its means provide another example. And, of course, there is the fine example of Germany; other European countries are becoming increasingly aware as to why the mark is one of the world's hardest currencies.

There are also some encouraging signs in this country. The outstanding one is the Federal Reserve's resolute policy of containing expansion in money and credit despite pressure from politicians and even from officials within the Administration. Other signs include Congressional cuts in appropriations of some $5 billion in the current budget and the Administration's own economy moves. The President's $70 billion budget target for the coming fiscal year ($2 billion lower than expected in the current year)–while it may only prove to be wishful thinking–is still the official target, according to Mr. Eisenhower. And finally, there is the Administration's intention–up to this writing anyway–to get by without an increase in the public debt limit. The road to a sound dollar cannot be reached by scrapping debt ceilings–or circumventing them by the use of financial gimmicks. —END

The New Interest in GOLD STOCKS — In U.S.A. — Canada — South Africa

(*Continued from page* 278)

of course can not be predicted, but it lends some additional speculative attraction to the shares.

Natomas is a large gold dredging Company in California with a long history of profitable operations. However, gravel reserves have become relatively limited and profits from gold have declined. Because of the present marginal nature of gold dredging, the company has diversified by acquiring a 49 percent interest in a leading shipping company.

U. S. Smelting has major gold production from its Alaskan placers with adequate reserves but the importance of its gold output is overshadowed by its smelting and oil interests. Golden Cycle controls the gold output of the famous old Cripple Creek area but costs are high and output limited. The company derives most of its income from other activities but would be a major beneficiary from a higher gold price.

Leading Canadian Producers

In Canada first place must be given to **Kerr Addison,** the Dominion's largest gold producer. Its total production since 1938 exceeds $147 million. Its ore has been increasing in value as depth is gained. Reserves total over 14 million tons above the present lowest level which by no means represents the ultimate depth of the mine. The company has no other outside interests of importance.

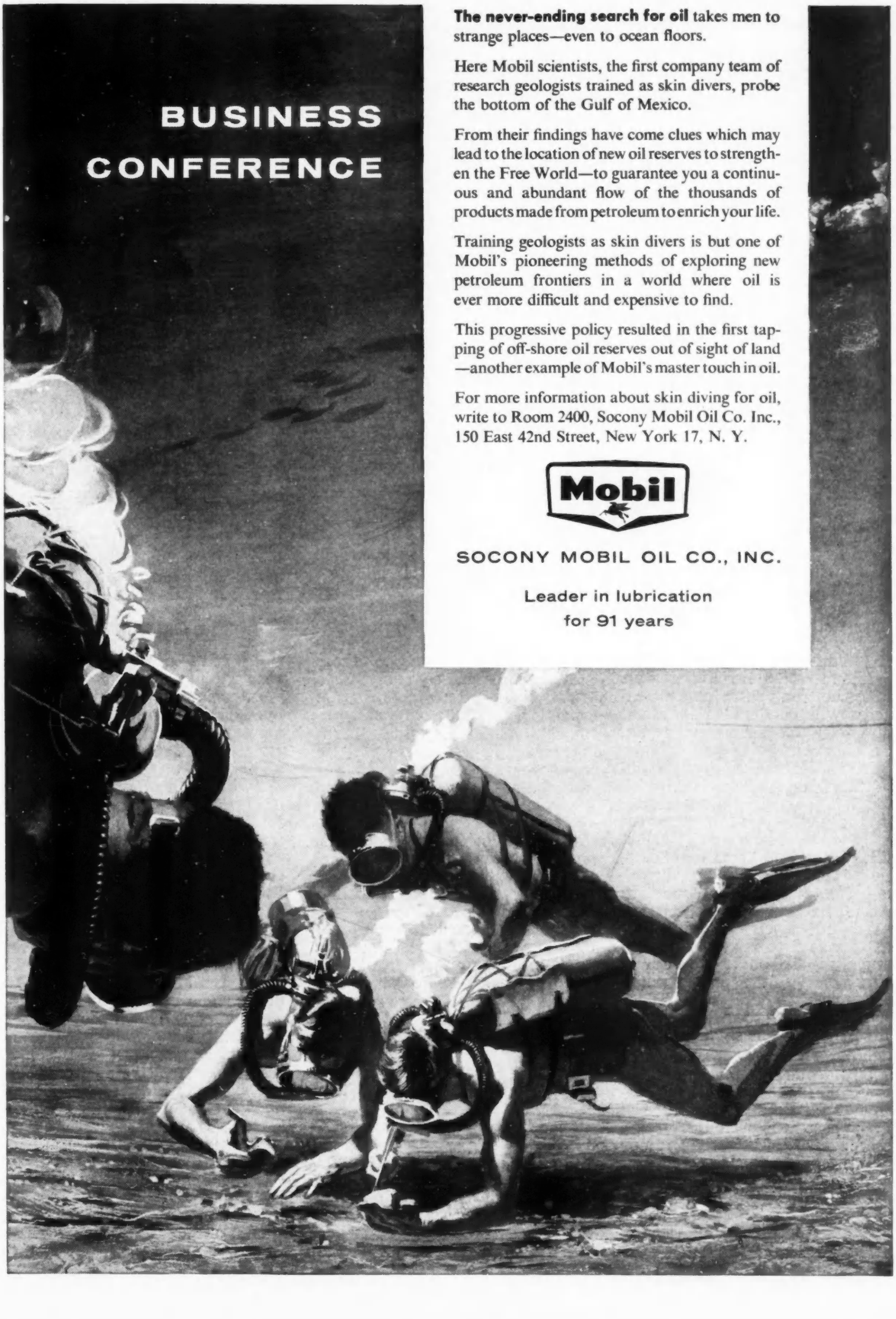
Quite different from Kerr Addison is **Hollinger** which owns, beside its leading gold property in Porcupine, a 50 percent interest in Labrador M & D Company and a 17.7 percent direct and indirect interest in the huge Iron Ore Company of Canada. It also has a 50 percent interest in Hollinger-Hanna Ltd. which manages the latter. Dividends from its unconsolidated subsidiaries are expected ultimately to exceed profits from its gold mine by substantial margin.

McIntyre Porcupine, another large gold producer, finds major investor interest in its portfolio which recently totalled over $65 million in market value. The company recently bought management control of Ventures Ltd. thru acquiring 400,000 shares of treasury stock at $35 with options on an additional 250,000 shares at the same price. It is to be expected that McIntyre will energetically develop the Ventures mining empire, as it has been fitly termed.

While **Dome** derives most of its revenue from its long lived gold mine in Porcupine, its dividend from the controlled Sigma and Campbell Red Lake gold mines account for considerable of its income. Thus it is more dependent on profits from gold mining than either Hollinger or McIntyre and so qualifies as a nearly straight gold producer investment-wise.

South African "Kaffirs"

It is by no means necessary for one interested in gold to confine his field to the U. S. and Canada. The South African gold mines produce over 50 percent of the world's gold. The principal producing mines are of major size and assured of long productive life, and constitute the mainstay of South African economy. The stocks listed in London and Johannesburg command a ready market but have not found much favor with U. S. investors, largely it may be presumed because of lack of familiarity with the mines. It is also probable that the political situation in South Africa does not promote confidence particularly because of the attitude of the government toward racial


BUSINESS CONFERENCE
The never-ending search for oil takes men to strange places—even to ocean floors.
Here Mobil scientists, the first company team of research geologists trained as skin divers, probe the bottom of the Gulf of Mexico.
From their findings have come clues which may lead to the location of new oil reserves to strengthen the Free World—to guarantee you a continuous and abundant flow of the thousands of products made from petroleum to enrich your life.
Training geologists as skin divers is but one of Mobil's pioneering methods of exploring new petroleum frontiers in a world where oil is ever more difficult and expensive to find.
This progressive policy resulted in the first tapping of off-shore oil reserves out of sight of land —another example of Mobil's master touch in oil.
For more information about skin diving for oil, write to Room 2400, Socony Mobil Oil Co. Inc., 150 East 42nd Street, New York 17, N. Y.
Mobil
SOCONY MOBIL OIL CO., INC.
Leader in lubrication
for 91 years

The New Interest in GOLD STOCKS — In U.S.A. — Canada — South Africa

(*Continued from page* 298)

segregation and the belief, perhaps unjustified, that South Africa may encounter strife that would seriously jeopardize profitable mining operations. If the investor buys these stocks he must be willing to assume this risk. —END

Study of Growth Utilities For Today and Tomorrow

(*Continued from page* 281)

the nation's prime growth utilities. The company has estimated an increase of about 64% in kwh output for 1960 compared with 1957; American Gas & Electric is runner-up with an estimated gain of 55%. The Florida Company has just placed a 160,000 kw generating unit in operation (with capacity to be fully used) and three similar units will come on the line in 1958-9, it is anticipated. Thus the company's recent capacity will be doubled in about four years under further growth in their area.

Meanwhile the company's accounting remains conservative although it has now begun to accrue for the first time an "interest credit on construction". (Most utilities use this bookkeeping device to bolster earnings during the period after capital funds are used for new construction, and up to the time when the new property comes into operation). The company is still adding to its hurricane reserve although this would now appear to be ample. It does not use accelerated depreciation with resulting tax savings.

Florida Power Corporation may not be quite as dynamic as Florida Power & Light from the viewpoint of future growth, although in the post-war period its revenues increased somewhat faster than those of Florida Power & Light (371% vs. 347%). While the gains in share earnings in recent years have been somewhat slower than those of Florida Power & Light, currently the stock appears to be about equally popular. Both issues have been selling around 50 recently with estimated 1957 earnings of about $3 on average shares, but the Corporation pays a dividend of $1.80 compared with Power & Light's $1.28. The Corporation's management is thoroughly sold on the possibilities of the "heat pump" as a load builder and is reported to have more of these large appliances — which heat in the winter and cool in the summer — on its lines than all other electric utilities put together.

Tampa Electric is the smallest of the three utilities, but is equally popular. The city of Tampa's rapid growth is indicated by last year's 30% gain in bank clearings, 29% increase in suburban building permits, etc. Some 34 existing industrial plants undertook major expansion programs last year and there are many plans for further expansion in 1957 and later years.

Other Growth Companies

American Gas & Electric, which operates in Ohio and six adjacent states, is one of the most dynamic utilities. Over the next two or three years it will service new aluminum plants which are coming into the Ohio Valley to obtain cheap power. The company has a $700 million expansion program which it hopes to accomplish without equity financing. Share earnings have gained consistently in recent years (though at a slower rate than for most Florida and Texas utilities) and it appears likely that earnings will reach the $3 level or better by 1960. The company recently raised its quarterly dividend rate and added a small stock dividend, as it had done once or twice before.

Delaware Power & Light has had a good growth record although the area is not noted for rapid increase in population. The company is now benefiting from the construction of a special plant to service the big Tide Water Refinery. Under a special long-term contract it is assured a return of 6% on the investment in this plant.

Atlantic City Electric serves a substantial part of South Jersey in addition to the resort area around Atlantic City, and has benefited by the influx of industry into that area. As indicated in the accompanying table share earings have been increasing consistently and the stock has therefore joined the select group of "growth utilities". With aggressive management, the company seems likely to continue these gains under further industrial expansion.

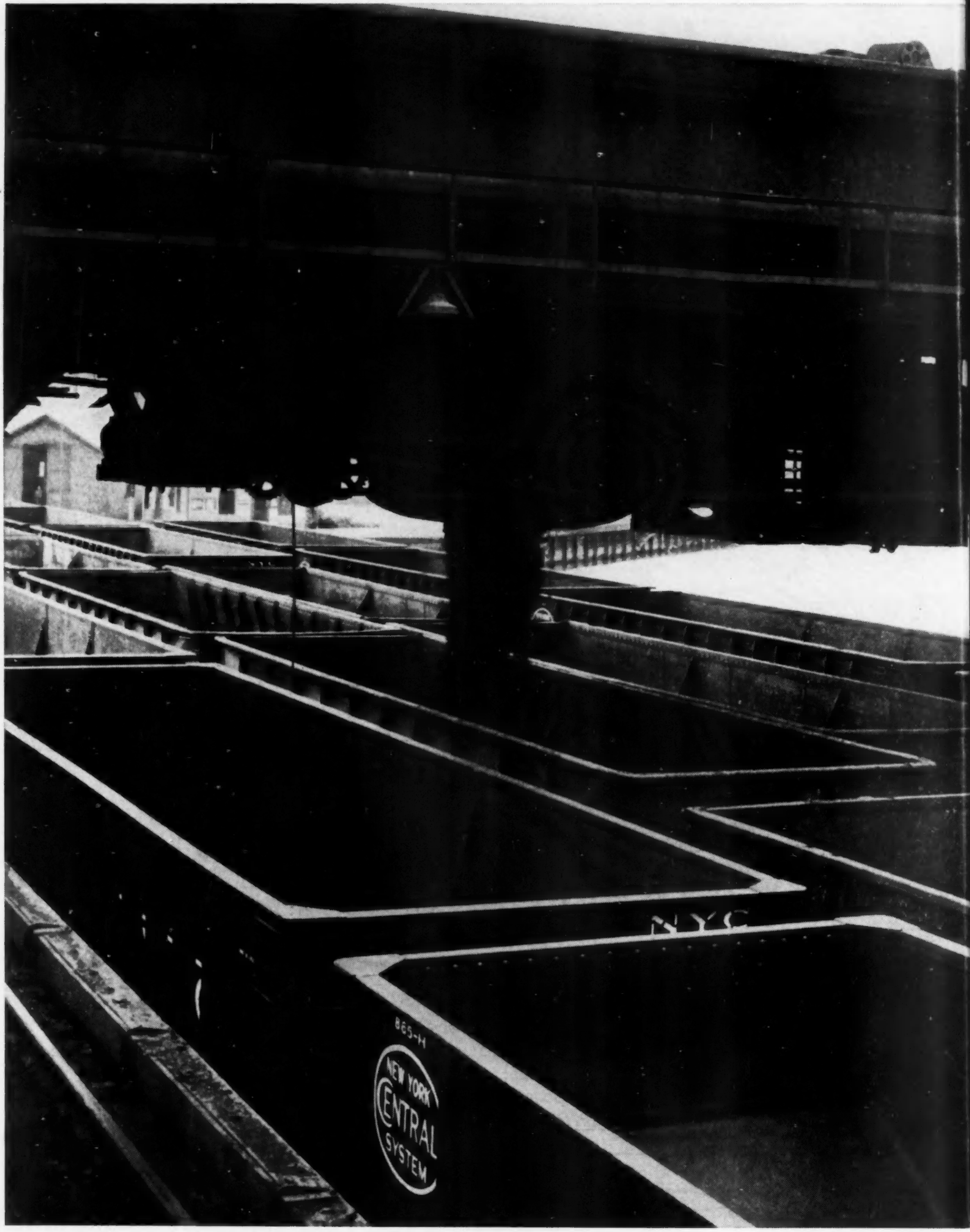
Virginia Electric & Power has achieved the status of a growth utility, although the state in which it operates was once considered somewhat backward industrially. As a matter of fact the company's increase in share earnings in recent years (see table) has exceetded that of most other growth utilities, with the exception of two or three. This year activity in the state has received a special boost from the tourist influx in connection with the Jamestown Festival. Industry in the state is reviving and the growth trend seems likely to continue.

Southern Company has reported steady gains in share earnings since 1952 and with the steady influx of industry into its area, the stock should continue to give a good account of itself. However, the gains in earnings have not been large enough to give the stock "full membership", perhaps, in the growth group.

Utility Companies in Canada

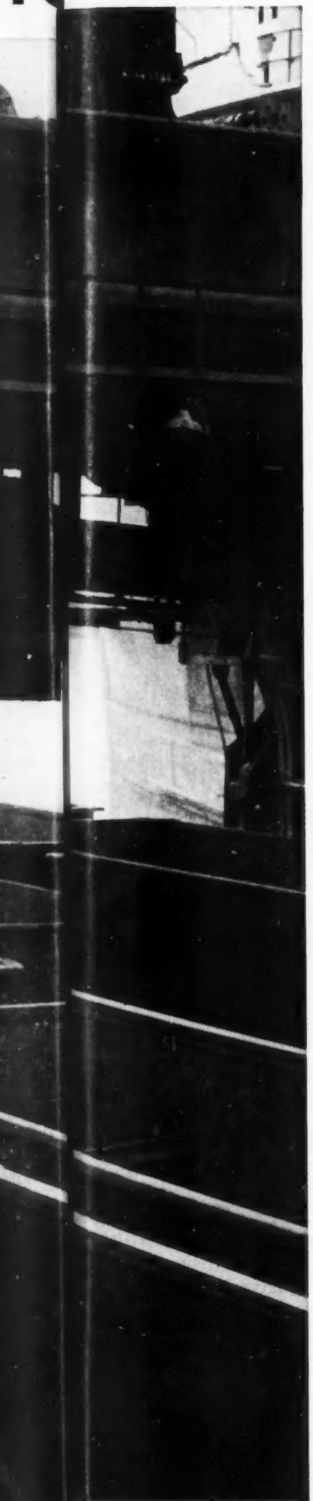
Canada has been developing very rapidly with the opening up of oil and mineral resources, aided by American capital. Two electric utilities — **British Columbia Power** and **Shawinigan Water & Power** — stand out as growth utilities, Shawinigan holding the record in our tabulation with an increase in share earnings of 122% during the period 1952-6. The company controls an important chemical subsidiary. British Columbia Power, with diversified electric, gas and transit earnings, and aided by strong management and favorable regulation, has achieved an interesting record in recent years. With the opening up of new oil and gas reserves in the area, the company should continue to do well. Stocks of these two companies have been an exception to the drastic readjustment of market prices which the Canadian markets have encountered in recent months. As a result the stocks have been obtainable recently at about 15 times earnings compared with 20 or more earlier this year. But Canada is bound to feel the throes of an economic slowdown, should one develop in the United States. —END

What's new on the



Self-clearing hopper cars—shown here loading iron ore from a Great Lakes ore boat—form the biggest category of new equipment.

New York Central



15,000 new freight cars help meet growing shipper needs ...move your freight faster

The equipment you see here is part of more than 15,000 new freight cars ordered or received by the Central during 1956-57!

To date, 11,244 of them have been put into service. These cars, representing an investment of over $150 million, will roll night and day to help keep your freight moving faster.

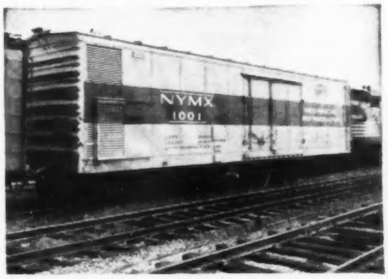
The new rolling stock will help provide a rotating reserve of empty cars—ready to move whenever you're ready to ship. And in time of national emergency, they would be available for the tremendous job that has always fallen to the railroads. America has learned through three wars that there is *no substitute* for dependable, all-weather rail transportation.

Topping the Central's order are 5,500 hopper cars to carry vital coal and iron ore! Another 4,500 hoppers will go to the railroad's Pittsburgh & Lake Erie affiliate. There will be 3000 new boxcars . . . 1050 refrigerator cars . . . 150 Flexi-Van flatcars —in all, 13 different types of equipment.

The Central is adding 86 diesels to its fleet, too. These alone will cost more than $16 million!

This extensive equipment purchase is *just one example* of the hard cash that backs up our firm faith in the Central. Big things are happening *all over* this progressive railroad. Ask our freight salesman to explain how each of these innovations makes for better service than ever —at no extra charge to you.

500 new automobile cars with 15-foot double doors are already in service.



50 mechanical refrigerator cars and 1000 standard "reefers" have been purchased.

500 new gondola cars will go to the Central's Pittsburgh & Lake Erie affiliate.

Route of the "Early Birds"—Fast Freight Service

New York Central Railroad

Keeping Abreast of Corporate Developments

Armco Steel Corp. will acquire Union Wire Rope Corp., large producer of high carbon wire and wire rope.

The acquisition has the approval of the boards of directors of the two companies and now will be submitted to the shareholders of Union Wire for their approval.

The agreement of purchase calls for the issuance of 264,000 common shares of Armco Steel for the 660,000 shares of Union Wire Rope, or 1 share of Armco for 2½ shares of Union.

Last year Union Wire Rope reported sales of $18,516,244 and net income of $1,550,909, or $2.58 a common share. Total assets were $10,921,762.

Burroughs Corp. will set up an Italian subsidiary for the production of computers and other office equipment in that country.

Ray W. MacDonald, vice president of Burroughs International division, said the organization is to be incorporated as Burroughs Italiana, S.P.A., with headquarters in Milan. This will be the 20th of Burrough units, operating throughout 22 nations. The plant will make the series E, or small computer ,as well as the larger "Datatron" units, plus "Datafile" electronic magnetic tape storage machine, adding machine and supplies.

Curtiss Wright Corp. has acquired H. A. Wagner Co., Van Nuys, California. This company is a designer and producer of missile systems and components. The Wagner Co. is to be operated by Aerophysics Development Corp., another subsidiary, which was formed in 1951 by a group of senior engineers working together since 1940 in the field of weapons systems design.

General Electric Co. and Pacific Gas & Electric Co. turned on the world's first all privately financed atomic electric power plant when they fed 5000 KW of electricity into the Pacific Gas & Electric transmission system from the Vallecitos Atomic Power Plant.

This power was sent to homes, farms and industries in northern and central California only a year and five months after the decision to construct the Vallecitos boiling water power reactor was made. This is believed record speed for nuclear power plant construction.

Power produced by the plant, located at the General Electric Vallecitos Atomic Laboratory, is being fed into the PG&E interconnected transmission system which serves 47 northern and central California counties. Testing of the reactor installation will continue for some time, officials of the two companies indicated, and the plant will be formally dedicated in about six weeks.

Carrier Corp. has developed a residential air conditioning unit that will be gas-fired rather than powered by electricity as present units are.

Carrier did not reveal when the new unit would be put on the market in large quantities but indicated it would be about a year.

An official of Carrier said no price has been established on the new device, but that when it was mass-marketed it would be competitive with present electrically-powered units. The company gave no comparison of operating costs.

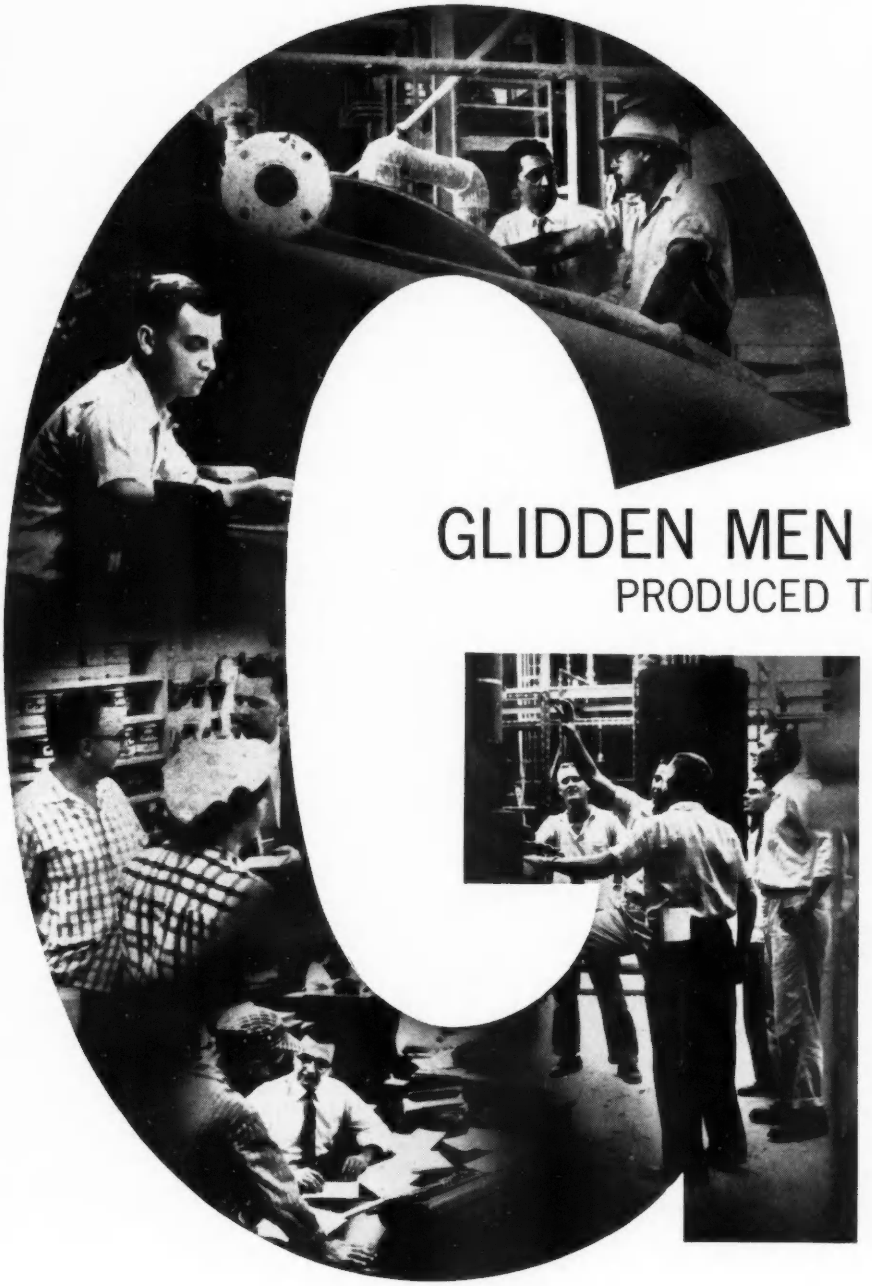
The unit is designed for use with gas-fired heating systems. The cooling apparatus itself will be located in a cabinet installed outside the house. It will chill water which will circulate through a coil in the furnace.

The new Carrier unit is expected by the company to reduce space requirements and simplify installation and servicing.

Scott Paper announced it is producing a textile-like paper which it says can be used for a wide range of products, including garments, hand towels, and medical examination gowns.

Scott, which has named the paper "Dura-Weve", said it is a laminate of rayon scrim material with two or more piles of high-wet strength paper. Variations can also be made by using other materials—polyethylene, for example, for one of the piles, Scott Paper said.

Scott said Dura-Weve is currently being used in headrest covers on seats in airlines and railroads, hand towels, tablecloths, *(Please turn to page* 316)



QUALITY Glidden PRODUCTS

GLIDDEN MEN AT WORK
PRODUCED THESE RESULTS

FOR THE 12 MONTHS
AUGUST 31, 1957

Net Sales	$225,537,291
Income before Taxes	15,387,437
Taxes on Income	8,123,000
Net Income after Taxes	7,264,437
Per Share	3.16
% to Shareholders' Equity	8.5%
Cash Dividends Declared	4,594,340
Per Share	2.00
% of Net Income	63.2%
Earnings Reinvested	2,670,097
Shareholders' Equity	85,837,116
Per Share	37.35
Long Term Debt	27,500,000
Working Capital	52,301,673
Current Ratio	2.93
Plant & Equipment—Net	59,516,961
Total Assets	140,369,855
Depreciation and Amortization	5,046,378
Per Share	2.20
Expenditures for Plant and Equipment	12,465,415
Shares Outstanding	2,298,170
Number of Shareholders	21,686
Number of Employees	6,455

the GLIDDEN company annual report 1957

is available upon request by writing to The Glidden Company • 980 Union Commerce Building, Cleveland 14, Ohio

Materials Handling Specialists In Cost Cutting

(*Continued from page* 284)

prominent fork-lift truck producer also derives significant revenues from construction machinery and automotive parts. Expansion expenses held 1956 earnings back, dropping them slightly below the 1955 level, but this year a strike in the transmission division did much more damage. Sales have advanced, but earnings for the nine months receded to $2.77 per share from $2.85 a year earlier. In fairness, it should be pointed out that since the first quarter, in which most of the effects of the strike were felt, quarter to quarter comparisons have been favorable. As a result, however, it is doubtful that full year earnings will match last year's $4.11 per share.

Moving into 1958, high backlogs and a steady replacement part business should assure good operating levels. New facilities have increased efficiency, lending hope that some earnings improvement may show up in the opening part of next year.

Hewitt-Robins is a major producer of rubber conveyors and other mechanical rubber goods. In addition plastic based foams are growing in importance as a source of revenue. A new sales peak is expected for Hewitt in 1957, but since all of the company's lines are highly competitive, little increase is anticipated from the $3.35 per share earned last year.

Currently over 50% of revenues stem from materials handling equipment, and margins are generally satisfactory on these lines. But other products are dragging. Nine months earnings have improved to $2.09 per share from $1.91 last year, but a general business slowdown in 1958 will probably hurt the company more than others in the industry.

Joy Manufacturing is the leading manufacturer of mining machinery and equipment, much of which is essentially of a materials handling nature. Almost 45% of sales are made to the coal mining industry, a factor which tempers somewhat the adverse mining picture, generally. Nevertheless, enough of the company's output goes into metal mining to place the immediate future in doubt.

So far this year sales advanced over 10% and nine months earnings improved to $6.30 from $6.10 in the same period a year ago. Backlog, however, has dropped. In 1958, performance will depend largely on conditions in the bituminous coal industry, which will find itself in a testing period for its new-found stability.

Investment Policy

All things considered, the materials handling producers should outperform other equipment manufacturers next year, but some words of caution are in order. Today's business climate, like the stock market, is closely tied to spot news developments. In a world moving as fast as ours is now, capital spending plans, even in the short-term, are not synonomous with actual expenditures. As a result all industries producing capital goods face a certain degree of insecurity. Orders on the books can be canceled if management sentiment turns particularly bearish, and spending plans can be revised downward quickly. We do not foresee a radical shift in spending yet, but any investor contemplating commitments in capital goods industries does well to bear the possibilities in mind. —END

How Common Markets and Free Trade Areas Are Shaping U.S. Trade

(*Continued from page* 275)

of the formation of a European Economic Community is not to offer proof that such a union will function as harmoniously as its founders fondly hope. Rumblings of discontent have provided a background to the chorus of doubts which have been voiced ever since the concept of European economic integration was first announced. Since then the protests and admonitions have become more biting and assured. The misgivings of many nations that have a vital stake in trade with the Continent were recently given voice at the Geneva conference of officials of the 37 nations in the General Agreement on Tariffs and Trade. Their fears generally fell into two categories. The most common source of concern among the GATT nations is that the structure of both the Common Market and the Free Trade Area contains the latent danger that these unions will become preferential trading areas in which outside nations, including the United States, will not be able to compete as effectively as they now can. Thus, in this view, the European Economic Community would restrict rather than increase world trade. The second principal area of concern is to be found in the fear that European economic integration would actually stimulate the formation of cartels and monopolies and thereby frustrate the very purpose of the union by preventing the "optimization" of production.

On the first score, the arguments are not without foundation. The six countries which would form the European Common Market will gradually eliminate tariffs and other restrictions on trade among themselves over a 12-to-15-year period. At the same time they will establish a common tariff on goods from other nations. The fact that the amalgamation of the tariffs on external trade would be done through averaging the rates of the ECM countries suggests the possibility that Germany, for example, could sell her goods in the markets of any ECM member at a lower cost, behind relatively high tariffs, than the United States or any other outside nation. One factor strengthening this view is Germany's proximity to these markets and the modern efficiency of her post-war industrial apparatus. Equally convincing is the claim that the process of averaging the tariff rates of each ECM country would reduce the German tariff but also raise the duties imposed by other members. The accompanying table on relative Benelux and ECM rates is a graphic illustration of this point inasmuch as German custom duties in most cases are as low as those imposed by the Benelux nations. Furthermore, the marketing agreements which the ECM Governments propose to use to regulate their trade in agricultural goods also will act to limit imports from other nations. The privileged position granted to farm products in both the ECM and the Free Trade Area schemes,

How Common Markets and Free Trade Areas Are Shaping U.S. Trade

(*Continued from page* 306)

particularly mitigates against the interest of U.S. exporters of agricultural commodities.

Germany's Dominant Position

Ironically, Germany's economic ascendancy under both economic integration plans, while inimical to the short-term interests of this country as well as to those of Britain, France and other ECM members, is almost perversely cited as an argument in favor of economic integration. The reason lies in the fact that there is a recognition in England, and to a lesser extent in France, that both countries could profit from the competitive impact of Germany. There is a real fear of German competition in England. And there is also a paralyzing reluctance to do very much about it, due mainly to the realization that it cannot be countered successfully in every case. There is also the suspicion that participation in the Free Trade Area would be merely the opening concession to a movement which would end with the absorption of Britain into the Continent, the loosening of ties with the United States and the end of England's days as a world power. But proponents of the Free Trade Area plan in the U.K. feel that the best catharsis for British industry is a generous dose of good, stern German competition. This, they say, will stimulate industry to modernize and labor to work harder.

Demands for special treatment of particular industries, if granted, will unquestionably vitiate the basic purposes of European economic integration. Moreover, they will create a shelter for certain products against which U.S. competition will flail in vain. The British action in excluding agricultural products, mainly foodstuffs, from the Free Trade Area is a case in point. Its object is to enable the United Kingdom to continue to protect her agriculture at home while safeguarding her trade with the Commonwealth. The Free Trade Area concept is already far removed from the European Economic Community's more far-reaching plan for economic integration. The concessions to British agriculture are another step away from this ultimate goal if only for the fact that they will justify claims for similar privileged treatment by other nations.

The problems of domestic stabilization and of maintaining equilibrium in the balance of payments between the members of an economic union lie behind requests for privileged treatment and for the determination to surrender only the minimum economic powers to a supranational or union authority. This is a central issue involving exchange rates, exchange controls, import curbs and foreign lending. The nations of the European economic community wish to avoid domestic booms and slumps. They would all like to do this in a manner which is as compatible as possible with the maintenance of equilibrium in their balance of payments. But no nation is yet prepared to surrender any significant portion of her authority over these matters to a supranational group. Thus, perhaps more than any other factor, the development of an acceptable alternative is an indispensable sine qua non for the successful economic integration of Europe.

Free Trade Area — Britain's Answer to ECM

It is in this context, particularly, that the future of the Free Trade Area becomes clearly perceptible. If all goes well, the first reduction in internal tariffs between the Common Market nations will go into effect in January, 1959. From then on, British exporters will find themselves at a growing disadvantage in Continental markets unless their Government finds a way of associating England with the Common Market Group. Hence the British interest in setting up the Free Trade Area. For, in London's view, this would drive a breach into the common tariff wall around ECM and permit Britain to exploit the rich possibilities of trade with Europe. From the British standpoint this scheme has the added advantage of enabling London to retain a maximum of control over the nation's foreign and domestic economic policies. For example, the British Government believes that the Free Trade Area agreement should contain escape clauses for countries in acute balance of payments difficulties. England would also retain the right to impose taxes for revenue purposes, such as the purchase and petrol taxes, on imported articles. Moreover, the Free Trade Area, unlike the Customs Union, would allow member countries to vary their tariffs with nations outside, so that Britain could still give Commonwealth countries a preference over nations outside the Free Trade Area.

The Dilemma

The ECM nations are not enamored of the British proposal. To them the treatment of agriculture proposed by England is a critical issue with which they are not disposed to compromise. The French have repeatedly stated that they cannot accept a free trade area from which agriculture is excluded. Denmark and Holland are equally adamant in their opposition. All agree that there is little sense in lavishing time and effort on framing rules for a free trade scheme so long as this basic conflict is not healed.

But the breach is not insurmountable. One factor which may induce Britain to make some concession to the European view on agricultural matters is that Commonwealth preferences no longer have the same value to the United Kingdom that they possessed as recently as only a few years ago. Britain's markets in Europe and in North and South America have been expandingly rapidly ever since the end of the war while those in the Commonwealth have remained static. Moreover, Australia, India and other nations of the Commonwealth are expected to curtail their imports from England even more in the coming year. Furthermore, London is not unmindful of the fact that, as Commonwealth countries build up their industries, and trade becomes consequently less complementary, the advantages in the system for the United Kingdom tend to melt away. It may thus well be that, in balancing the advantages of the Preference System against those of ECM, Britain may vote in favor of the latter. But ECM will have to yield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How Common Markets and Free Trade Areas Are Shaping U.S. Trade

(*Continued from page* 308)

some ground. For England certainly cannot completely accept a Common Market for agriculture which promises dearer, instead of cheaper, food. London's interest is clear. Her conditions have been made known. Now it remains for the ECM countries to determine what price they will pay to bring the Free Trade Area into being.

Free Trade Area vs. Common Market

The question of concessions to Great Britain is far from an academic one. For it is becoming increasingly evident that the Free Trade Area is in many ways preferable to the more inflexible Common Market. The growing appeal of the Free Trade Area as an adjunct to the ECM is based on the fact that such countries as Germany and the Netherlands, for example, fear that the Common Market will imprison Western Europe's economy instead of freeing it. A glance at the accompanying table of ECM tariffs will show that Dutch industrialists are justified in their concern for the great increases in their costs which will result from higher ECM tariffs on imports from the outside world. At the same time the Germans are almost literally haunted by the specter of Germany's liberal economy set hard-fast in a rigid union with a nation such as France, that manages her affairs so badly that French markets are periodically closed to German exports. Thus, France's chronic economic ills help nourish the desire for a broader and looser trade area which would be large enough to lodge nations such as France that may have occasional need for deviating from the liberal trade norms of ECM. In this light, the Free Trade Area becomes a more palatable alternative to the prospect of six querulous nations squabbling within a protective common tariff barrier.

At the same time there is little enthusiasm for the Common Market in France. There is some small support for ECM in the knowledge that France, like England, could benefit from the competitive impact of the more efficient German economy. Moreover, Britain's recent shift in favor of closer cooperation with the Continent has warmed the French Government's interest in the plan. But there is strong reluctance to go further than the British. In addition, France cannot move toward integrating her economy with that of the other five nations as long as she is constrained by an overvalued currency, a strong protectionist tradition and an economy so sternly set in an inflexible mold of price-sheltered and subsidized industries that reaction to any form of change has almost become an economic reflex.

High on the agenda of French requests for concessions is their demand that social security systems be harmonized as a pre-condition to tariff concessions. The danger in this is not that France has little cause for complaint in this respect, for the accompanying table will show that direct and indirect labor costs are much higher in the Scandinavian countries, in Switzerland and in the United Kingdom and that these last nations have a sounder economic argument for asking that these charges be made more uniform. There is rather the greater danger that if any more concessions are made to the French point of view the basic principles of the ECM treaty will be seriously distorted. Even now Paris is busy applying severe import restrictions and planning new export promotion schemes which contradict both the spirit of the ECM accord as well as most of the trade liberalization gains achieved in Europe since the war. The Common market cannot accept France under these terms without impairing its own character. Nor does Paris feel that she can fulfill her obligations toward the ECM as long as the Algerian drain on the French economy continues. Thus, the less rigorous Free Trade Area becomes a more acceptable alternative, although it is difficult to conceive of the Common Market or the Free Trade Area making any progress without an alignment either of prices or of the exchange rates of the member countries.

Thus, United States interests are more logically evaluated with-

in the framework of the Free Trade Area, mainly because its more flexible structure will permit greater concessions to American interests. Like the Common Market, the Trade Area will strengthen this country's political allies and lead to a more efficient use of resources within the area. It also will help create a strong bond of common interest between Germany and her neighbors to the West and thus reduce the possibility of a separate deal between Bonn and East Germany. Our own efforts should assure that the basic charter of the Free Trade Area is so drawn that it maximizes the opportunities for free competitive trade within Europe and minimizes the extent and duration of discrimination against the United States. —END

Where Now — For Secondary Defense Suppliers

(*Continued from page* 286)

results in short order.

It is difficult at best to appraise the potential of the host of subcontractors who supply the defense machine. At this stage, events shaping up since the arrival of Sputnik can be described as in a state of confusion. The most promising contenders for resultant benefits of an accelerated missile program will be those already identified closely with existing Intercontinental Ballistic Missile and Intermediate Range Ballistic Missiles projects. The speed-up moreover, will bring into greater prominence related makers of electronic equipment and rocket fuels. Conversely, those companies dependent upon air-frame business and projects hinging upon manned aircraft would be left with problems of changeover or survival.

Probably the best situated companies in the field of rocket fuels are **General Tire and Rubber** through its **Aerojet** affiliate, **Thiokol Chemical**, and **Olin Mathieson**, through **Reaction Motors**.

General Tire and Rubber is one of the few polyglot corporations that is doing fine in today's rough weather. Last year, the company pulled down $10.8 millions in profits on sales of $390 million and was doing even better at the

halfway mark in 1957. Fiscal 1956 marked the peak year in the 14 year history of the company's rocket propulsion subsidiary, Aerojet-General Corporation, as sales climbed 109% above those of 1955. The backlog of this subsidiary can be figured to be better than $500 million. Aerojet-General's Liquid Rocket program underwent tremendous expansion in 1956 to meet a number of government contracts, particularly the ICBM plans. For the Titan, Aerojet-General is building the rocket engines and the internal power equipment. For 1956, the subsidiary's impressive production included more than 1,300 large solid propellant booster rockets for guided missiles, 40,000 smokeless JATOS, 1,000 Sparrow missile plants and other significant items for missile production. Yet even with this impressive record and future, Aerojet-General is developing products that have application in both fields—jet components that can be adapted to commercial aircraft if the military market drops. General Tire is an outstanding exple of diversification and subcontracting when it works.

Thiokol Chemical has established a leading position as a supplier of engines and solid fuels for rockets. Its power plants are in the Sergeant, Nike, Hercules, La Crosse, Falcon, Hawk, Matador and other experimental missiles. The company has reported that hundreds of flight tests have shown a reliability of 97.5% for its motors. Until recently, solid fuel engines have been used principally to power short-range missiles, but the trend in rocketry is now towards more and longer range rockets, using solid propellents. With the company's new $3 million rocket plant in operation, it is in a better position to capitalize on this shift in trend.

Olin Mathieson is another of the successful polyglot corporations. Sales in 1957 are expected to be in line with the $597 million reported for 1956. On July 9, 1957 the company started shipments to the U. S. A. F. of a new fuel developed for intercontinental jet planes. An Air Force contract was awarded to Olin Mathieson for construction of a $36 million facility to produce the new fuel. Olin's stake in boron fuels has done much to brighten the company's prospects for the future although other facets of its structure may not fare so well.

Among electronics manufacturers for guidance systems likely to benefit are **American Bosch Arma** and **Litton Industries.**

American Bosch Arma is an important producer of equipment for the automotive and diesel engine fields and is a major military supplier of electronic and specialized products such as navigational and gun-fire equipment and guidance systems for missiles. Specifically, the company is working on the guidance system along with Bell Telephone Laboratories of the Titan. Sales in 1956 advanced 66% from those last year reflecting in the main, the company's expanded position as a supplier to the armed forces. In this shift in emphasis to missiles, this company should fare well. As time goes on what Bosch Arma might lose in producing fire control systems for the B-52 Bomber will be more than made up by its stake in the Titan.

Litton Industries designs and manufactures components and equipment for industry and the Government covering the major areas of the electronics field with considerable emphasis on research and development activities. In the fiscal year ended July 31, 1956, sales expanded 68% over the year-earlier level to another peak. The company develops such equipment as instrumentation and test equipment, radar and countermeasures, computers and controls and many other electronic devices. Litton produces a host of electronic devices for use in missiles.

Among those companies doing subcontracting work for defense industries that were facing grim prospects because of cutbacks and stretchouts not too long ago but are in a position to benefit by the new emphasis on missiles are **Consolidated Electrodynamics, Thompson Products,** and to a lesser degree, **Minneapolis-Honeywell.**

Consolidated Electrodynamics is engaged in the design and manufacture of mechanical and electrical instruments of a complex nature for industry and the Aircraft industry. At the halfway mark this year the company was rolling along in high gear; sales were up 41% and earnings up 60%. In September, earnings were abruptly revised because of uncertainty in the aircraft industry, and the

company was obliged to lay off nearly 500 employees. Because of the considerable subcontracting business with the military, the company is still apprehensive over its near term prospects but optimistic for the long-term because of its stake in missiles. Moreover, the company has only 30% to 35% of its business committed to the military and feels that when the big switch takes place to missiles, the company is bound to prosper because missiles require so much more instrumentation than manned aircraft.

Thompson Products is a leading supplier of aircraft engine parts and auto parts. The company also has a stake in the electronics field, primarily through the Ramo-Wooldridge affiliate. Cutbacks affected the company greatly and over 3,000 employees were dropped up to September 10, 1957. With 67% of sales in 1956 concentrated in aircraft and related parts, the company could be facing difficulty in the future if it wasn't for the prospect of benefitting from the speed-up in the missile program. Through the Ramo-Wooldridge affiliate, Thompson Products has a stake in the Atlas project and also in electronic systems. However, much must be ironed out before the company has clear sailing ahead.

Minneapolis-Honeywell is the giant in the field of automatic controls. The company has had an unusual record of growth that in all probability will continue. With over 25% of company sales devoted to the military, cutbacks could have had a unwholesome effect on the company's earnings which may have affected the high multiple of earnings afforded the stock in the market very adversely. However, with cutbacks much in the background today, the company should show little bad effects from its scare although some slightly lower earnings could be in store for the very near future.

Some companies with varied prospects in the subcontracting field are **Hoffman Electronics, Garrett Corp., Solar Aircraft, General Precision Equipment, Menasco Manufacturing, Rohr Aircraft, Bell Aircraft** and **Rheem Manufacturing.**

Hoffman Electronics has over half of its sales volume in the production of electronic devices for the military. The stretch-out of Government contracts will restrict results for the company in the im-

mediate future but the rapidly increasing sales of the company's transistors should provide an offset.

Garrett Corp. is the leading manufacturer of high-altitude and high speed aircraft equipment with a good record of earnings, although about 77% of this company's business is military. Its specialized work in high altitude equipment and the fact that it is well situated in missile parts can offset any dire effects due to economy waves.

Solar Aircraft has most of its sales in producing heat resistant parts for aircraft engines. The company faces a bleak future unless it can expand similar work in missiles.

General Precision Equipment has about 70% of its sales in military business, which consists primarily of the production of components, systems, and equipment used by the Armed Services for fire control, bombing, airborne navigation or guidance and the like. With such a large percentage of sales volume in government contracts, there is a degree of uncertainty into the company's outlook in these troubled times; but prospects in the missile field are improving.

Bell Aircraft is a leading builder of helicopters and also turns out electronic equipment, rocket motors, guided missiles, and bomber assemblies. Stretchouts will affect part of Bell's subcontract work but missile work is expanding which will help. However declining earnings are in prospect for this year.

Rheem Manufacturing has about 25% of its sales in military products. The company has expanded its products line to include a large variety of items including a large volume of ordnance and aircraft components parts. The future of the company seems to be hazy at this juncture.

Other companies like **Bendix Aviation, Fairchild Camera & Instrument Corp., Avco Manufacturing,** and **American Machine & Foundry** have interesting growth possibilities in the missile age.

Bendix Aviation is a large and diversified manufacturer producing automotive, aviation, electronic, and marine products. Heavy emphasis on research and new products enhances future growth. Although cutbacks in the military aircraft program will adversely affect the showing in this main area of activities, it is expected that with cutbacks halted, the company will be able to restore its favorable record with the aid of research emphasis.

Fairchild Camera & Instrument Corp. is showing signs of dynamic growth with earnings in a sharp uptrend and the formation of the Fairchild Semi-conductors Corp. This organization can be likened to the Ramo-Wooldridge affiliate of Thompson Products with emphasis on research and development. Fairchild is participating in over a dozen missile programs and is making strides in developing aerial cameras which might well be used in a future satellite.

Avco Manufacturing is engaged in development work on the Titan missile's nose cone as well as other classified projects.

American Machine & Foundry is supplying the Atlas' internal power system as well as for the Thor.

Thus the Pentagon's big shift is having a far reaching effect on the whole industry. The airframe makers have been hit the hardest but a whole new list of newcomers have entered what was previously the realm of such romantic names as Sikorsky, Republic, Grumman and the like. —END

Over Production and Surpluses

(*Continued from page* 269)

The late 1940s and early 1950s were a period of low additions to the supply, owing to rising costs of production. In the past, such a low rate of additions invariably was followed by a very substantial decline in commodity prices.

In the words of the authors of the study, "the low additions of the forties and fifties would indicate that conditions are ripe for another dip in the roller coaster ride" of commodity prices.

These studies, based on many years of research, suggest rather strongly the existence of a powerful "outside" influence on commodity prices that has been given little consideration in recent years. And, interestingly enough, these studies explain why commodity prices did not decline sharply shortly after the end of World War II, as was so generally expected. The authors attribute

(*Please turn to page* 316)

Over-Production and Surpluses

(*Continued from page* 314)

the post war strength to the impact of the large increment in the world gold supply in the late thirties and early forties, following the rise in the price of the yellow metal. They also note "when deflation failed to put in its appearance after World War II, the field was fertile for development of new explanations of prices; and the crop has been bountiful."

Conclusion

For the first time since the end of the war, business activity is tending to "level off" simultaneously in practically all industrialized countries. Prices of goods have outrun consumer ability to pay, and inventories are mounting. The sharp expansion of industrial capacity has outdistanced consumer demand for goods for the time being. Tight money and rising interest rates throughout much of the world are adding to the pressures on prices as reflected by current supply-demand relationships. In addition, there is the historical evidence of the gold supply-price level sequence.

There still are, to be sure, strong factors in our economy, but it would appear to be lacking in discretion to overemphasize the strong points and disregard the mounting evidence that deflationary forces, for the time being at least, appear to be in the ascendancy. —END

Profit and Income

(*Continued from page* 289)

regular rates by 29 companies, against 68 a year ago and 89 in October, 1955; and there were decreases or omitted payments in 27 instances, compared with 10 a year ago and 8 in 1955. There was shrinkage also in the number of October extras, both from 1956 and 1955 levels. There is no change in our previously expressed view that the November-December year-end extras, representing flood tide in such payments, will be on the lean side in number and more so in dollar total.

Outlook

What industries could earn more in 1958 than 1957? Probably electric utilities, drugs, food stores, shipbuilding and tobacco. Possibly air lines, if they get a substantial boost in fares; makers of building materials largely for housing; biscuit bakers; dairy products; packaged foods; natural gas, assuming some rate increases and given normally cool heating-season weather in the early and late 1958 months, whereas mild weather in much of the 1957 first quarter was an adverse factor in this year's showing.

Hard Going

A better bond market is probably ahead, but up to now demand for long-term capital funds remains heavy and official credit policy has not been relaxed. Bond yields remain no great distance under the year's highest levels and are competitive with stock yields. On average, preferred-stock yields are at a new peak around 4.9%. These issues have normally made their lows after the bond market did. On a comparative basis, the allure of most stable-dividend income stocks is quite limited under these conditions. For instance, Beneficial Loan is on a 5.7% yield basis at present — but investors were recently offered debentures of this company on a yield of nearly 5.2%. To have much appeal at this time an income stock must have both a satisfactory current yield and fairly clear promise of higher earnings and dividends ahead. Not many meet these requirements. A few which do are Corn Products, Equitable Gas, National Dairy Products, National Biscuit, Public Service of Indiana, Reynolds Tobacco, Southwestern Public Service and Union Tank Car. —END

Keeping Abreast

(*Continued from page* 316)

examination garments for clinics and hospitals and sterile drape sheets for operating rooms. The company said it is also working with Band & Oppenheimer Co., New York City, to investigate the new product's potential in the garment industry. —END

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